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## **SOCIAL ASPECTS OF INDUSTRY**



# SOCIAL ASPECTS OF INDUSTRY

A SURVEY OF LABOR PROBLEMS AND  
CAUSES OF INDUSTRIAL UNREST

BY

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*To*

**JAMES P. LICHTENBERGER**

**TEACHER, COLLEAGUE, AND**

**FRIEND**



## PREFACE TO THE SECOND EDITION

The great economic depression has been, in some respects, as devastating to our civilization as the World War itself. Labor standards and ideals of economic well-being, which had been slowly built up during the new industrial revolution, were suddenly carried away by the floods of a world-wide crisis of unprecedented magnitude. Social adjustment had failed to keep pace with technological progress.

The present period of economic rebuilding is as challenging as the postwar reconstruction era, perhaps more so because economic institutions are more difficult to remake than is economic wealth. Present peacetime programs of industry, or of government in industry, are as experimental as they are colossal. Economic mobilization for the war against the great depression has been almost as spectacular as that during the call to the colors two decades ago.

The great changes of the past few years have rendered obsolete texts on economics and labor problems written before 1929, for they belong to a period that has passed into history. Again, the 1930 census figures are now available. Moreover, the results of much recent research in the social sciences demand recognition. Finally, the sweeping changes of the New Deal, or the Third American Revolution, require inclusion, although their permanent economic results and their ultimate legal status must remain for the future to determine.

Hence, the necessity of another edition of "Social Aspects of Industry," although the quick tempo of modern economic life will soon call for still another complete revision. In the meantime, the author ventures the hope that the second edition will be received as hospitably as the first one.

S. HOWARD PATTERSON.

PHILADELPHIA,  
*December, 1934.*





## PREFACE TO THE FIRST EDITION

The purpose of the present volume is that of an introductory survey of a number of social problems of industry. Although many excellent texts on labor problems are now available, many of these books treat somewhat in detail a rather restricted number of topics. Again, labor problems are frequently approached from the aspect of industrial management rather than from a broad social and economic point of view.

"Social Aspects of Industry" begins with introductory chapters on the environmental background of labor problems, as found in our present complex industrial organization and in our legal and political institutions, a short survey of which is then supplemented by a brief discussion of immigration and our labor supply.

A fundamental problem of industry is that of income and standards of living. Consequently, Part Two of this book treats of our increased national prosperity, labor's share thereof, and the persistent problems of economic inequality and poverty.

Our approach toward the social problems of industry is a threefold one, that of the state through legislation, that of organized labor through collective bargaining, and, finally, that of the liberal employer. Part Three treats of various industrial maladjustments and the problems of human conservation, stressing the role of the state through legislation. Part Four is concerned with the problem of organized labor, the approach of collective bargaining, and the various devices for securing increased wages and shorter hours. In Part Five is discussed the approach of the employer, as represented by employee representation and profit sharing.

Part Six discusses comprehensive programs of economic reconstruction such as the cooperative movement, socialism, and syndicalism. In conclusion, a brief discussion of economic and social progress is essayed.

A study of the social problems of industry lies within the twilight zones between economics and sociology, and between economics and political science. All industrial problems have their social consequences, and they also involve governmental action for their solution. Although realizing the composite nature of labor problems, the author has attempted to treat them as a part of applied economics. Indeed, the present volume grew out of a text on general economic problems.

Because of the rather general nature of this text, most labor problems are discussed briefly. Indeed, many important phases of management are omitted entirely. It is obvious that technical problems and specialized fields cannot be treated adequately in such a brief and general survey.

Again, no claim is made for originality, except perhaps for the hazardous attempt to cover so large a field in one volume. The findings of numerous research students have been freely used, but due acknowledgment is made wherever possible in the footnotes.

This text is intended merely to carry the general thread of the story, and it is hoped that time will permit the teacher to supplement this work by library readings in the many good books in the various fields which are here represented. At the end of each chapter are specific collateral readings, including brief articles and particular chapters in well-known texts. An additional list of references, including reference books and special treatises, is appended to each chapter. At the end of each chapter are also a list of questions for discussion, which are based on the reading in the text, and a list of topics for investigation, which invite the students to do a little outside reading and independent thinking.

S. HOWARD PATTERSON.

PHILADELPHIA,  
*June, 1929.*

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## CHAPTER I

### MODERN INDUSTRIALISM AND OUR CHANGING ECONOMIC LIFE

#### SOCIAL ADJUSTMENT AND NEW IDEALS OF INDUSTRY

**1. Approach of Student.**—Complacent defenders of capitalism and violent critics thereof are numerous. They can be heard, as well as seen, in drawing room and on street corner, in pulpit and on platform. The daily press carries argument and counterargument, apologetics and tirades. It is only the academically minded student, "sicklied o'er with the pale cast of thought," cloistered far from the noise of battle, who ventures to raise the fundamental question of just what is meant by the term "capitalism." The great doers of the world are so busy saving, reforming, or attacking capitalism that they cannot lay down the sword for the pen in a pedantic attempt to define that for whose defense, regeneration, or overthrow they might give their very lives.

Definitions constitute an indispensable framework of any logical study such as sociology or economics. Although tiresome and uninspiring, their construction affords both discipline and information. On the other hand, definitions, like classifications, are apt to be arbitrary and sterile. There can be no final or exclusive definition of such complex, varied, and changing concepts as capitalism and industrialism. Consequently, the following attempt at definition should be regarded merely as a starting point for the student's own thinking and as a device to avoid confusion in subsequent discussion.

**2. Nature of Capitalism.**—Capitalism may be regarded as an economic order or social system characterized by a relative abundance of capital goods and by such social or economic institutions as individual enterprise, freedom of contract, private property, the price system, and the profits motive. Again, the existence of money and credit, of merchants and markets, is involved, for capitalism is essentially a pecuniary and commercial system, just as feudalism was essentially a military and land-holding system.

The distinction between capitalism and capital is obvious. Capital refers to a type of economic wealth, *viz.*, products of past labor used for further production. Capital goods are material commodities, but capitalism is an economic order or social system. Nevertheless, capitalism requires the relative abundance of capital, *i.e.*, plenty of movable,

transformable, and exchangeable commodities! A nomadic tribe of shepherds, a medieval manor, or a plantation is too primitive, too self-sufficient, and too agrarian to be regarded as highly capitalistic.

Again, certain types of economic institutions, as well as capital goods, are regarded as essential to the existence of capitalism. An illustration is freedom of contract, which stands out in strong contrast to status, a condition fixed by birth. Hence, ancient societies, honeycombed with slavery, medieval Europe, stratified by serfdom, and modern India, permeated by a caste system, cannot be regarded as capitalistic, in the strict sense of the term.

'Critics of modern capitalism claim that freedom of contract should be curbed in the interests of social welfare, that individual enterprise should be replaced, in whole or in part, by public ownership and operation of essential industries, that private-property rights should yield before a partial or complete communism, that the sordid profits motive, as the driving force of production, should be supplanted by the ideal of social service, and that the price system, as the imperfect regulator of production and consumption, should be replaced by a consciously planned economy. It is not our purpose now to evaluate the merits or demerits of capitalism, in contrast to those of socialism, communism, fascism, or some other social order, but merely to observe that capitalism is essentially a system of economic freedom and "rugged individualism," be they desirable or undesirable qualities.'

**3. Nature of Industrialism.**—'Industrialism may be defined as production under conditions of machine technique and the factory system, rather than by the hand tool of the craftsman under the domestic system. Some thinkers regard industrialism as the latest phase of capitalism, *i.e.*, as including all the essential elements and institutions of capitalism plus machine technique and large-scale production. Other students regard industrialism merely as a technological, rather than an institutional, concept, *i.e.*, as a process of production rather than an entire economic system. Hence industrialism is not viewed as inseparable from capitalism but as a mechanized type of production which could exist under socialism, communism, fascism, or any other social order.'

**4. Historical Setting of Capitalism and Industrialism.**—From a historical viewpoint capitalism is older than industrialism. 'A broader definition of capitalism than that given above might lead to the contention that it had existed among many of the ancient commercial civilizations of the Mediterranean Sea, including Rome, Greece, and even Phoenicia. However, the appearance of capitalism, as just defined, is generally placed in the Renaissance cities of northern Italy, such as Venice, Genoa, and Florence.' The Lombard merchants and bankers were the first modern capitalists.

'The coming in of capitalism may be viewed as synonymous with the rise of commerce, or the commercial revolution, which can be traced as far back as the Crusades. This transition from medieval to modern economy involved the break-up of the manor as a self-sufficient economic unit; the disappearance of status, in the form of serfdom, in favor of freedom of contract; the development of a free peasantry, and especially a middle class of burghers or townsmen; production for market demand, rather than for local consumption; the use of money and the payment of rents and wages therein, instead of in services and commodities! On the other hand, modern industrialism is generally dated from the industrial revolution, which appeared first in England in the textile manufactures in the latter half of the eighteenth century. It will be described more in detail in the following section.

**5. Modern Economic Revolutions.**—'It must not be thought that the coming in of capitalism and the advent of industrialism were the only economic revolutions of modern times. In addition to these commercial and industrial revolutions, important changes occurred in agriculture and in transportation and communication. An agricultural revolution in the form of increased, improved, and varied farm production had taken place in seventeenth century Europe, even before the industrial revolution. Again, the industrial revolution was followed by one in transportation and communication.

Economic revolutions have been frequent, as well as continuous; *i.e.*, there were not merely one agricultural revolution and one industrial revolution, but there have been several. Within the United States in the last decade or two, new agricultural and industrial revolutions have taken place.

Again, these economic revolutions have been as interrelated as they have been continuous. Thus the recent revolution in American agriculture was a result of the same process of mechanization as that which brought about the industrial revolution. Similarly, improvements in modern farm life have been intimately related to revolutionary changes in methods of transportation and communication, as well as manufacturing.

**6. Industrial Revolution.**—'The industrial revolution may be defined as changes in methods of production brought about by the invention of power machinery and the consequent substitution of the factory for the domestic system. The term "revolution" denotes a "turning away from" or any sweeping and sudden changes.'

As a result of the industrial revolution, manufacturing lost its etymological meaning of making by hand. The substitution of expensive power machinery for the simple hand tool necessarily involved the replacement by the factory system of the domestic system. Power machinery was too large for the home and too expensive for anything except large-scale production.

"The careful student of history discerns not one, but several, industrial revolutions—perhaps a whole series of them. The so-called "industrial revolution" has been, in truth, a gradual evolution, the suddenness and rapidity of which are only relative. Hence it is difficult to give exact dates to this momentous movement. It is impossible to say just when the industrial revolution began or just when it ended. Perhaps it is still in progress, for the series of mechanical inventions has been fairly continuous. Indeed, its climax was not reached until the new industrial revolution in the United States during the past two decades."

It is generally conceded that the industrial revolution first took place in England. In the narrow sense of the word, it refers to the changes in the English textile industries, due to the invention of power machinery, which took place in the latter half of the eighteenth century. The spinning jenny of Hargreaves, invented in 1764, is a convenient date to mark the beginning of this new movement. It was followed by the water frame of Arkwright and the spinning mule of Crompton, which combined the best features of the two earlier inventions. Weaving, as well as spinning, was revolutionized by the development in 1785 of the power loom of Cartwright. These important mechanical inventions meant the decline of the domestic system in the textile industries.

Water power was first used to run the machinery in the new factories, but James Watt's invention of the steam engine, the first patent for which was granted in 1769, furnished a new motive power for manufacturing. Small water-power mills gradually gave way to large steam-driven factories.

The industrial revolution expanded from the manufacture of textiles to other industries. The fabrication of iron and steel was facilitated by the use of coal and coke as fuels and by the invention of the blast furnace. The development of these heavy industries accelerated the general tendency from small- to large-scale production. Older methods of production therein were simultaneously replaced by newer and more effective processes.

[The industrial revolution, in the broad sense of the word, affected methods of transportation and communication, as well as manufacturing.] As a continuation of the same general movement must be noted Fitch's development of the steamboat and Stephenson's invention of the locomotive in the opening decades of the nineteenth century. Improved methods of communication followed improved methods of transportation. The telegraph, the telephone, and the radio put in their appearances in the order named about a generation apart!

As time went on, the industrial revolution spread, not only from textiles to other manufactures—and, indeed, from manufacturing to transportation and communication—but also from England to the continent of Europe and even to America.



At the present time, Eastern Europe and the Orient are feeling the quickening pulse of the industrial revolution. Factories have been started and machinery is being imported into India, in spite of Gandhi's adherence to the spinning wheel. Cotton mills are springing up within sight of the Egyptian pyramids. Silk mills have been built in Japan and railroads in China. Oriental peoples numbering hundreds of millions are now experiencing the throes of the industrial revolution. In spite of the so-called "progress" of the past hundred years, many of the same economic maladjustments which appeared in England during the first phase of the industrial revolution are again displaying themselves on an even greater scale in some of the more newly industrialized sections of the world, including even certain American communities.

**7. Industrialization of the United States.**—The industrialization of the United States came several generations after that of England. At the opening of the eighteenth century less than 4 per cent of our population lived in cities of ten thousand inhabitants, and as late as the middle of the past century over 87 per cent of our population was still rural. Except for a few manufacturing and commercial centers in New England and the Middle Atlantic states, the typical American family of a century ago lived on a farm, which was economically self-sufficient to a considerable extent. In the South slavery and the plantation system flourished. To the West lay an unconquered continent with fertile farms for the asking. The philosophy of individualism was part of the democracy of the frontier which helped to keep alive the economic policy of *laissez-faire*. Labor problems, in the modern sense of the term, did not then exist, because of the relative unimportance of manufacturing and the absence of congested industrial centers.

Although a few water-power mills had existed in colonial America, it was not until a generation after the achievement of independence that manufacturing really developed in the United States. During the War of 1812 and the preceding period of the Embargo and Non-intercourse Acts, the New England states began manufacturing cotton cloth instead of importing it from England. But it was not until the Civil War that the thorough industrialization of the United States began. Impelled by the necessities of this great conflict and encouraged by a high protective tariff, which continued long after the war was over, many of the basic industries of this country took a firm hold. The manufacture of iron and steel products, the boot and shoe industry, and many other new manufactures were added to the textile industries.

Although the industrialization of the United States had been taking place at an accelerated rate during the generation before the World War, the demands on American manufactures during that great conflict and in the years which immediately followed it were so enormous that the expression "new industrial revolution" has been used to describe

these recent momentous changes. Although there was a great increase in the number and variety of industrial enterprises and an expansion in plant capacity, industrial productivity rose even more rapidly, owing to increased mechanization, improved processes, and the introduction of scientific management and mass production.

Electricity and superpower played as conspicuous a part in this new industrial revolution as had the steam engine in the first industrial revolution a century and a half before it. Of equal importance has been modern technology, as represented by business research and industrial chemistry.

The new industrial revolution in the United States, like the old industrial revolution in England, resulted in a considerable migration of industry and population. Factories were started in the Piedmont section of the new industrial South, where raw materials, as well as cheap labor and power, were available. In England the shift had been from the south to the north and Midlands, where coal and iron deposits were located.

**8. Importance of the Industrial Revolution.**—Just as the Renaissance separates medieval from modern history, and as the French Revolution separates the ancient régime from the new, so the industrial revolution separates the old economic order from modern industrial society. Many of the leading economic problems of today can be traced back to the industrial revolution, which has colored the entire character of modern economic life.

The French Revolution, which took place at about the same time as the first industrial revolution, was more spectacular and attracted wider attention. But although the French Revolution produced profound social and political changes throughout the entire world, it is doubtful if it revolutionized the lives of succeeding generations as much as did the industrial revolution.

Judged by a purely materialistic standard, the world of Napoleon and Washington had much more in common with the ancient civilizations of Alexander the Great and Julius Caesar than it had with the modern world of Marconi and Lindbergh. During the two thousand years preceding the industrial revolution, tremendous cultural, religious, and political changes had taken place, but progress in the arts of manufacture, transportation, and communication was made slowly. To be sure, there had been some improvements in methods of farming, but they were rather recent. The invention of agricultural machinery was a triumph of the nineteenth century.

Homespun cloth was worn by the patriots who suffered at Valley Forge, and the cumbersome hand loom was still in use. Methods of illumination had improved no more than methods of manufacturing. Oil-burning lamps, similar in principle to those of ancient Rome, afforded

the best method of illumination. Tallow candles, such as those made by young Franklin, also were in common use.

Modern means of communication, such as the telegraph, the telephone, and the radio, were undreamed of. Methods of travel used by the troops of Napoleon were hardly superior to those employed by the legions of Julius Caesar. Indeed, many of the old Roman roads were still in use, and some of them were sadly in need of repairs. Men journeyed on land afoot or by horse. The small sailing vessel made water transportation slow and uncertain.

The importance of the industrial revolution can be visualized by this comparison. 'Fabulous wealth was produced by improved methods of production, and additional comforts of life resulted from the new inventions.' Although the population of Europe had remained almost stationary during the Middle Ages, within the century following the industrial revolution Europe supported more than twice its former number of inhabitants. Great cities, many times larger than the former medieval towns, sprang into existence from the black magic of modern industrialism.

**9. Dilemma of Modern Industrialism.**—This brief review of the changes wrought by the industrial revolution indicates that modern economic society is far different from that which existed in the days of the guildsman and the domestic system. The introduction of power machinery and the factory system has produced a new economic order and has created unprecedented social problems of industry.

The genii which Watt discovered under the lid of a steaming kettle are able to lighten the tasks of the worker and to bring him new comforts of life. On the other hand, the machine and the minute division of labor which it involves may become oppressive and relentless tyrants. The Iron Man of modern industrialism may become the servant of civilization or a fiery Moloch which demands its human sacrifices.

'Time and space have been conquered by new inventions in communication and transportation. The entire world is at our doorstep. The dangers of rapid transportation, however, have increased with its speed. Again, points of contact have been multiplied and human interdependence has been increased. Economic progress has its costs as well as its comforts, and its dangers as well as its delights. In any event, increased technological progress must be accompanied by, or at least followed by, improved social control of industry.'

**10. Nature and Advantages of the Machine.**—'The machine may be regarded as a tool or series of tools operated automatically, rather than guided by human skill, and propelled by some mechanical power, rather than by human muscle. Indeed, machines are commonly classified by the degree of automaticity which they embody.'

A machine generally consists of three parts: (1) the operating tool or series of tools, (2) the motor, and (3) the gears or connecting mechanism.

The advantages of the machine are too numerous and too apparent to expatiate upon. Compare a modern revolving power press with the former hand press or with the still more primitive method of copying manuscripts by hand. Such illustrations might be multiplied, but the student of economics is fully aware of the advantages of the machine and of the dominating role of capital in modern life. By means of recent mechanical inventions, economic productivity has been so increased that much more wealth can be produced now in a few hours than formerly in a much longer time. If the gains of economic progress are well distributed, standards of living should be raised and leisure time should be increased for all members of society.

**11. Disadvantages and Dangers of the Machine.**—The greater productivity of power machinery has permitted higher standards of living and increased leisure, but also it has created serious dangers and numerous disadvantages, especially to the workers.

'Machine production requires minute division of labor, which is both monotonous and fatiguing.' Nevertheless, the introduction of the factory system was accompanied by long hours of work from sunrise to sunset, to reduce which has been a long and difficult task.

'Again, the increased use of capital in the form of specialized machinery made the process of production more roundabout, as well as more highly specialized. Hence the increased danger of maladjustments between the demand for labor and the supply of labor.' An immediate effect of the introduction of power machinery was the creation of unemployment by throwing a number of hand workers out of their jobs. The craftsmen, who were displaced by these changes of the industrial revolution, sometimes retaliated by wrecking the new machinery and by burning the factories. These maladjustments of the almost continuous process of mechanization may be regarded as a cost of economic progress.

'As the tending of machinery did not require the skill of craftsmen or the strength of men, it could be operated by women and children. A sad page in the history of the industrial revolution was that of the exploitation of these unorganized and defenseless workers, particularly the children of pauper parents in English poorhouses.'

The new machinery was too expensive to be owned by the workers themselves. Hence they lost the ownership of their instruments of production and the control of their conditions of employment. A new group of capitalists arose who took over the balance of power from the former landed aristocracy. A different social stratification and a new class consciousness were created.

'The industrial revolution is a relatively recent event in the long story of economic evolution, and society is still suffering from numerous maladjustments which followed in its wake. Great possibilities for good and grave social dangers are woven inseparably into the fabric of modern

industrialism. (Economic progress has had its human costs; and broad social welfare has sometimes been sacrificed to a concentrated economic prosperity. Under our capitalistic régime the banes and blessings of capital have not been evenly distributed.)

## 12. Impersonality and Interdependence of Modern Industrialism.—

The complex industrialism of today affords many interesting contrasts to a simple agricultural community, such as that of our pioneer ancestors. The economic relationships of a local economy and of an agricultural community were direct, personal, and limited, as compared with the complex, impersonal, and expansive character of modern economic life.

Even within the towns, the commercial and industrial life of the pre-machine period was relatively simple, direct, and local. (The handicrafts were learned by an apprenticeship system, which was personal and almost paternal. Honesty was necessarily the best policy for the medieval guildsman, since he could not escape direct responsibility for the quality of his own product, which could easily be identified, and which was always before its maker in the local community. Similarly, one's deeds were always before their doer.

'The development of modern industrialism has completely changed this situation. Modern economic life is as complex as it is strenuous and monotonous. Modern relationships are not only numerous but also indirect. Division of labor has made individuals interdependent to an unprecedented degree. The development of extreme specialization and world-wide markets has made our economic and social interrelationships infinite. We produce not for a few individuals who are known to us but for a distant and impersonal market. We consume daily the commodities and services produced by innumerable strangers!

What are the consequences of such a situation? Who, indeed, are our neighbors? Although they are infinite in number, many are invisible to those with whom they have frequent and important relationships. The growth of big cities, large-scale production, and huge corporations have intensified the complexity, interdependence, and impersonality of modern life. Urban dwellers frequently do not know those who reside in their immediate vicinity. Employers cannot know their own employees or customers. Stockholders know little of the details of the business of which they are the ultimate owners. Absentee capitalism has supplanted absentee landlordism.

'Personal relationships beget sympathy and understanding, but impersonal relationships often result in apathy and misunderstandings! Thus the constant pressure to pay dividends may influence plant managers to cut expenses at the social cost of lowered wages. The wearers of fashionable clothing may not know that their garments were produced under sweatshop conditions. The receivers of income from an estate in trust may know nothing of the uses to which the real estate is put or

the hardships which the foreclosure of a mortgage may involve. 'The lure of a low price may induce the kind-hearted but ignorant consumer to buy with avidity Christmas gifts produced by child labor and to ignore the products of "shut-ins," who are striving to maintain their economic independence.

In short, not only has increased specialization been accompanied by increased interdependence, but also greater complexity has been accompanied by greater impersonality. Such a situation has especial dangers and requires additional social control. It is now easier than ever before for one to commit an antisocial act and to escape detection and even to avoid full realization of its social consequences.

**13. Higher Social Morality Necessitated by Recent Economic Changes.**—The complexity and impersonality of modern economic life necessitate a long-range, instead of a short-range, vision. Intelligence, rather than emotionalism, and knowledge, as well as altruism, are involved. But especially does our present economic interdependence necessitate a social, as well as an individual, conscience. Individual morality must broaden into a social morality, if the meek, or anyone else, are to inherit the earth. Hence a new and more highly socialized type of education is necessary to produce a cooperative and considerate type of individual.

The difficulties, as well as the possibilities, of such an educational program are enormous. It requires a complete change in our social heredity. Although social heredity, as contrasted to physical heredity, is acquired rather than inherent, it is almost as difficult to modify. Individual habits are hard to change, and an institution is essentially a social habit of thought. Group attitudes and class prejudices are difficult to modify, in spite of the fact that they may be irrational and detrimental to group welfare. But if modern civilization is to survive, a social morality, which will meet the needs of our complex and impersonal industrialism, must be evolved. In other words, a social and educational adjustment must be made which will parallel recent economic and technological progress. New inventions must be socially controlled and not individually exploited.

'Technological progress, as illustrated by scientific discoveries, mechanical inventions, and industrial improvements, has taken place at a bewilderingly rapid rate of speed. The failure of social adaptation to proceed with equal rapidity has created a serious and continuous series of social maladjustments! This situation was well illustrated by the new industrial revolution in the United States, which culminated in the great economic depression from 1929 to 1932, which was followed, in turn, by the social revolution of 1933, popularly known as the "New Deal." Social adjustment, which had lagged far behind economic changes, suddenly expressed itself.

**14. Higher Social Ideals Made Possible by Recent Economic Changes.**—Not only do recent economic changes necessitate a broader social morality, but also they permit higher ideals in industry. Thus Professor Patten<sup>1</sup> regarded the industrial revolution as a period of transition from an older economy of pain and deficit to a new economy of pleasure and surplus. A mechanized Garden of Eden now lies before our very eyes, but economic man, long accustomed to live by bread alone, earned by the sweat of his brow, views this superabundance as overproduction and permits this new leisure for all to become unemployment for many. In truth, a paradox of plenty, rather than a surplus economy of pleasure.<sup>1</sup>

'Recent inventions and discoveries have so increased production that ruthless conflict is no longer imperative, and exploitation is economically unnecessary, as well as socially unjustifiable. Nevertheless, past traditions of individual acquisition, instead of the new ideal of social service, continue to dominate our thoughts and actions. The gain spirit and the profits motive have made us evaluate, not only economic goods, but also human beings themselves, in terms of the dollar mark.'

Revolutionary economic changes permit a commensurate social adjustment, in which industrial cooperation can triumph over industrial anarchy or conflict, and in which competition can be expressed in desirable and productive ways, rather than in predatory practices or in conspicuous consumption. But a social morality will supplant an individual morality only when "he profits most who serves best," or, to put the same thought in different words, only when acquisition is limited to and proportionate to production.

'The transition from a deficit economy to a surplus economy should stimulate the development of non-pecuniary concepts of value, social standards of production, and aesthetic ideals of consumption. The dignity of labor lies in its social usefulness, rather than in its rate of compensation. The highest levels of gratification depend on the plane of consumption, rather than on its amount.' An expensive article may, nevertheless, be cheap and tawdry, while an inexpensive one may yet be a thing of beauty and a joy forever.' In his "Vision of Sir Launfal," Lowell compared pecuniary and non-pecuniary values as follows:

'For a cap and bells our lives we pay  
'Tis Heaven alone can be had for the asking.'

It is natural for the social heredity of past generations to dominate the thoughts and actions of succeeding generations, although conditions have changed greatly in the meantime. Thus, struggle, a caste system, and sharp practice were parts of the social heredity of antiquity. Although the progress of science and the invention of power machinery have made

<sup>1</sup> Cf. PATTEN, S. N., "New Basis of Civilization" and "Theory of Social Forces."

possible increased leisure time, higher standards of living, and improved working conditions, public opinion and legislation are slow to adjust themselves to these new conditions.

**15. Adjustment and Social Unrest.**—Adjustment is the securing of greater harmony within the social organism or its better adaptation to the economic environment. Intellectual progress and the process of invention and discovery permit constantly better adjustments. On the other hand, they also necessitate continuous adjustment. Recent economic changes require equally momentous changes in our social organization. Indeed, present maladjustments are due in no small measure to the fact that social adaptation, represented by changes in group attitudes, public opinion, and legislation, has not been so effective and so rapid as economic adaptation, represented by recent economic revolutions.

Social unrest arises from the failure of our economic organization to adjust itself swiftly and smoothly to technological changes and to the rigidity of social institutions which resist actively or passively changes in our social organization necessitated by changes in economic life!

'Social' unrest is characteristic of a dynamic society. A relatively static society, like that of medieval Europe or China a century ago, suffered from maladjustments of which it was not conscious or which it was willing to endure. A progressive society suffers from "sublime discontent." The diffusion of acquired knowledge and the acquisition of higher ideals make for dissatisfaction with existing conditions. The spread of public education and the development of a higher social morality make for a greater sensitivity to industrial maladjustments than ever before. Hence social unrest exists today in an unprecedented manner. It is to be feared only if it remains inarticulate and finally explodes in some sudden and violent attempt at adjustment. The French and Russian Revolutions illustrate the social dangers of long suppression followed by sudden expression.'

The process of social adjustment may be evolutionary or revolutionary, according to whether it is slow or rapid, peaceful or violent. The forces of social unrest may express themselves in an intelligent, constructive fashion or in an unreasoning, destructive fashion. 'Progress represents conscious evolution and orderly adjustment, rather than the blind or selfish efforts of mob leaders to remove economic maladjustments from the backs of the masses.'

Finally, the process of adjustment may take the form of minor adjustments or it may be radical in the etymological sense of that term; *i.e.*, it may seek to go to the root of things. 'Liberals would repair by continuous petty reforms the broken machinery of capitalism, but radicals would scrap it completely and substitute some other scheme, no matter how violently they might disagree among themselves concerning the nature of the new order after the revolution had been achieved. Ultracon-



servatives, of course, would defend the existing economic system and the present social order against almost any changes whatever therein.\*

The elimination of industrial maladjustments by evolutionary processes has been accomplished (1) by the state through labor legislation, (2) by organized labor through collective bargaining, and (3) by liberal employers through various cooperative schemes. These varied approaches to labor problems are illustrated by Chart 1.

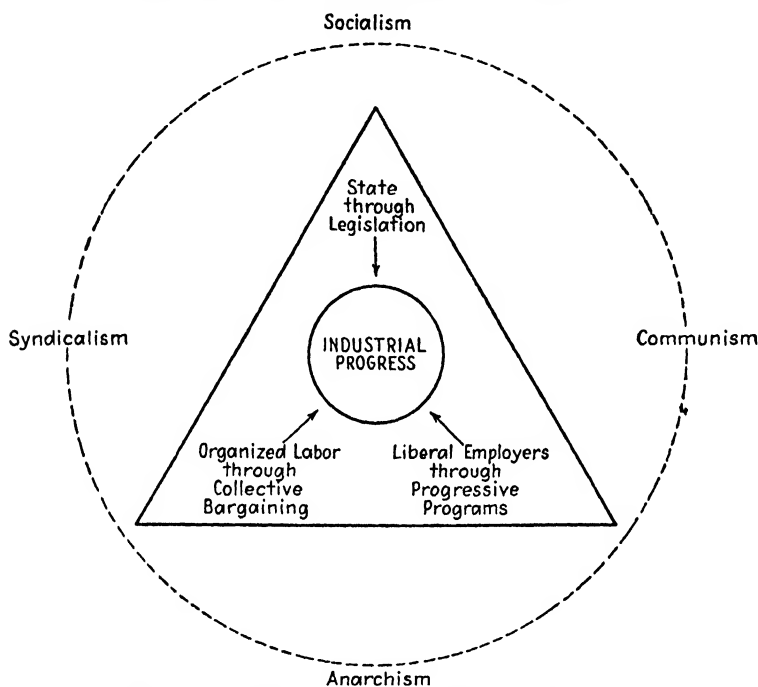


CHART 1.—Economic reform and economic reconstruction.

This triangle of labor relations illustrates three different but supplementary approaches.

The outer circle suggests several of many programs of economic reconstruction, which go far beyond mere economic reform. (Note that socialism and anarchism are at opposite poles.)

**16. New Ideals of Industry.**—The aims of social adjustment are as important as its various methods, which have just been sketched. In concluding this introductory chapter on the new economic order, an attempt will be made to outline certain ideals of industry which the student should have before him at the very outset, not as a ready-made industrial creed, but as a plan of approach to subsequent discussions, and as a tentative basis for the construction of his own economic articles of faith, to be tested by the hard facts and cold figures given in later chapters.

\*If economics is the social science of wealth, one of the chief objectives of applied economics must be the production of more wealth. Prosperity is a primary ideal of the new industrial society. It may be defined as the

relative abundance of economic commodities and services. A decent standard of living can, and should, be enjoyed by all. An economics of welfare realizes the importance of prosperity, but it seeks the diffusion of this prosperity throughout the entire group. Again, it must be a fairly continuous prosperity and not limited merely to certain periods. In short, industrial security is essential to economic prosperity. The greater stabilization and the wider diffusion of prosperity are as important as its mere increase.

The new economic order must be one in which producers are not sacrificed to product, or human beings to economic goods. The well-being of the individual worker, physical, mental, and spiritual, must not be jeopardized. In a revolt against the price economy of the classical theorists Professor John A. Hobson<sup>1</sup> attempted what he called a "human valuation for industry." Human costs of production, rather than monetary expenses, were made the corner stones of his system. Social gains were balanced against social losses. He regarded the production of sweated articles, produced at high human costs but selling for low monetary prices, as uneconomic and antisocial!

The kinds of economic wealth which are produced are as important as its amount, and the wise use of leisure time is as necessary as its mere increase. Qualitative aspects of wealth and work are as important as their quantitative aspects in amount of product and number of hours. In short, aesthetic and ethical values, as well as social values, transcend mere pecuniary values.

In his beautiful economic sermons John Ruskin<sup>2</sup> coined and popularized the word "illth." He said that there was no wealth but life, and to him wealth consisted chiefly of things of beauty and deeds of service. Indeed, he devoted much of his energy to the preaching of spiritual and cultural ideals in what he considered an age of materialism. He deplored the industrial revolution, which had flooded the world with ugly, standardized, machine-made goods. John Ruskin felt that this so-called "economic prosperity" was inimical to social welfare and that it represented retrogression rather than progress.

It does not profit a group any more than an individual if it gains the whole world but loses its own soul in the process. The greatness of a civilization and the degree of its culture are not necessarily proportionate to the size of its national income. The per capita wealth of Periclean Athens was small as judged by modern tests, but its standards of art and culture have come down across the centuries.

The economic ideal of prosperity and the social ideal of group welfare are, in turn, conditioned by the related ideals of efficiency and conser-

<sup>1</sup> Cf. HOBSON, J. A., "Work and Wealth, a Human Valuation for Industry."

<sup>2</sup> Cf. RUSKIN, J., "Essays on Political Economy," "Unto This Last," "Crown of Wild Olives," "Sesame and Lilies."

vation. These are supplementary, for efficiency means maximum production, and conservation, minimum waste. Efficiency involves not only maximum production, but also minimum effort. Modern personnel work has supplemented the older scientific management, as a new concept of human engineering has come into existence.

'Conservation includes not only the conservation of our natural resources but also the conservation of our human resources. At present, people, like wealth, go to waste in many different ways. (Illustrations are men out of work or maimed by preventable accidents, children in blind-alley jobs, expectant mothers at work in unsanitary factories, and a high rate of infant mortality caused by miserable housing and a lack of proper medical care.)

'The earlier economists stressed production, value, and distribution but dismissed consumption with a mere word. Psychologists are now endeavoring to explore this dark continent of economics. Sociologists, also, are studying standards of living and family budgets in order to show us how to live more efficiently! This ideal requires not only greater prosperity, but also increased leisure time. The best use of this increased leisure time requires at least the elements of a liberal education.

Historical essayists have indulged in the interesting platitude that the Renaissance gave the world intellectual liberty, the Reformation religious liberty, the English and American Revolutions political liberty and the French Revolution social "liberty, equality, and fraternity." The task of the centuries which follow the industrial revolution is the achievement of an industrial democracy. Labor is seeking an increased share, not only in the product of industry, but also in its control and direction. 'Political democracy must be paralleled by an economic democracy. The worker as a citizen has a vote, but as a worker he has had, until recently, little voice in the determination of the conditions of his employment. Labor organizations have developed outside rather than inside, the factory walls.'

'Equality of opportunity is a kindred economic ideal. This does not mean a flat equality of wealth or income, nor does it imply inherent equality. Because of the biological principle of variation, men are not created equal. Equality of opportunity pleads merely that all individuals be given an equal chance to become unequal, *i.e.*, to develop to the limits of their physical and mental heredity!

'Cooperation is an economic, as well as a social, ideal. Its development does not necessitate the extinction of competition. Economic competition is an important factor for the securing of greater efficiency, but it can be regulated and directed through socially desirable channels. Predatory and non-desirable forms of competition must be eliminated, as far as possible. Destructive conflicts of an industrial, as well as a

military, nature are the sources of tremendous human and economic waste. They are the antitheses of cooperation and conservation!

✓ **17. Summary.**—Capitalism is an economic order or social system characterized not only by an increased use of capital but also by private property and individual enterprise, rather than by the collective ownership and operation of the instruments of production. Capitalism also involves money, exchange, markets, the wage system, the profits motive, the price system, freedom of contract, and numerous other features. Industrialism is the recent phase of capitalism which was introduced by the industrial revolution.

The industrial revolution may be defined as the invention of power machinery and the substitution of the factory system for the domestic system of production. It appeared first in England in the latter half of the eighteenth century in the great mechanical inventions in the textile industries. The industrial revolution later developed improved methods of transportation and communication, as well as those of manufacture. It spread from England to the continent of Europe and to the United States!

The industrial revolution has changed not only our methods of production but also our modes of life. Machine production has meant more goods in less time, *i.e.*, increased wealth with greater leisure. But these gains of the industrial revolution were not evenly diffused throughout society. The immediate effects of the factory system were increased exploitation, rather than greater social welfare.

Modern methods of production are dangerous, monotonous, and fatiguing. Moreover, the use of power machinery has meant the loss of ownership of the instruments of production by the workers, and the factory system has resulted in the loss of control by employees over the conditions of their employment. Industrialism also has made modern economic society extremely interdependent, highly standardized, and very impersonal.

The dilemma of modern industrialism refers to the social costs of economic progress, *i.e.*, the relative advantages and disadvantages of the industrial revolution. It would seem that technological progress in the arts of production has been much greater than our social adjustment to the changed economic environment. However, social unrest is due not only to the existence of numerous maladjustments, but also to the desire to eliminate them.

Causes of industrial unrest have been inadequate wages, subnormal standards of living, economic inequality, child labor, excessive hours, poor working conditions, industrial accidents, occupational diseases, and unemployment. Symptoms of industrial unrest are to be found in a high rate of labor turnover and numerous industrial conflicts, such as strikes, lockouts, and boycotts.

Progress represents conscious evolution or a purposive adjustment toward certain economic goals or social ideals. Adjustment may be evolutionary or revolutionary, according to whether the process is relatively slow or rapid. Economic progress has been made by the state through legislation, by organized labor through collective bargaining, and by individual employers who have voluntarily introduced experimental and humanitarian projects. Social adjustment may take the form of a modification of our present economic system, as suggested by conservative labor leaders, or its complete reorganization, as demanded by syndicalists and revolutionary socialists.

Prosperity is an important economic ideal of a progressive society. It may be defined as the relative abundance of economic goods.' Economic prosperity involves not only increased production, but also a more stabilized production. Again, more equitable distribution is necessary for the more even diffusion of our national prosperity. Efficiency implies maximum production with minimum effort. Conservation is a supplementary ideal, for it implies minimum waste. Human conservation is even more important than the conservation of our natural resources. Industrial cooperation seeks the elimination of conflict but not of competition. Competition should be socially regulated and directed through economical and desirable, rather than wasteful or predatory, channels. Industrial democracy and equality of opportunity also are relatively new but important economic ideals. In short, increased social welfare is the chief aim of applied economics today, and a social adjustment in keeping with recent economic changes is the great goal of the new economic order. Not only do recent economic changes necessitate a broader social morality, but also they permit higher ideals in industry.

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### Questions for Discussion

1. a. How would you define "capitalism"? Why in this manner?  
 b. When and where did the coming in of capitalism take place? Why?
2. a. How would you define "industrialism"? How else might it be defined?  
 Why do you prefer the definition you gave first?  
 b. When and where did the coming in of industrialism take place?
3. "There have been numerous economic revolutions in modern times." Explain.
4. a. What do you understand by the industrial revolution?  
 b. Indicate some of its different phases.
5. Outline the results of the industrial revolution under some such headings as (a) economic, (b) social, (c) political, (d) cultural.
6. a. What do you understand by a dilemma?  
 b. By the dilemma of modern industrialism?

- c. Illustrate.
- 7. a. Indicate some of the chief causes of the present industrial unrest.  
b. What are some evidences of industrial unrest?  
c. Is industrial unrest a dangerous sign? Why or why not?
- 8. a. Define adjustment and maladjustment.  
b. Outline various methods of adjustment.  
c. Criticize each.
- 9. a. Illustrate the lag of social adjustment behind economic changes.  
b. Why is this serious?
- 10. Do you believe in the existence of progress? If so, what is it? If not, why not?
- 11. a. What do you understand by a social ideal?  
b. Is it possible to construct social ideals? How?  
c. Is it possible to realize social ideals? Why or why not?
- 12. Outline some economic ideals of a progressive society.

#### Topics for Investigation

- 1. Ruskin's concepts of wealth and illth.
- 2. Hobson's concept of a human valuation for economics.
- 3. Pigou's concept of a welfare economics.
- 4. Patten's concept of an economy of pain and pleasure.
- 5. Distinction between pure and applied economics.
- 6. Economics as a science and as an art.
- 7. Ethical and aesthetic elements in economics or in relation to economics.
- 8. Political and social institutions in economics or in relation to economics.

## CHAPTER II

### THE BACKGROUND IN OUR SOCIAL AND POLITICAL INSTITUTIONS

#### SOCIAL CONTROL AND THE NEW FREEDOM

**1. Nature and Types of Social Control.**—Social control refers to the influence of the group over the thoughts and actions of individuals composing it. By the exercise of social control the activities of individuals are brought into conformity with ancient custom or current opinion. An individual is restrained from actions which are regarded as unsocial and impelled toward those which meet with popular approval. An unsocial act is one which is regarded as inimical to the best interests and perpetuity of the group.

Social morality is an old problem, but it presents certain new phases. In the first place, as was shown in the last chapter, the necessity for increased social control has been occasioned by the economic changes of the industrial revolution. Greater social control is now demanded by the interdependence and impersonality of modern economic life. In the second place, the character of social control also has been modified by the course of history. 'Civilization requires not only increased social control, but also improved social control.'

'Various groups of people have evolved different codes of conduct, each of which has been associated with its own concept of social welfare, and each of which has been regarded by its devotees as contributing to the longevity of that particular group. But these codes of social morality were rarely rationally determined. They contained blind superstitions and crude folkways, which were associated with social welfare only by illogical inference. Again, these codes of social ethics were often autocritically enforced by priests, elders, and kings, who arbitrarily and severely punished individual derelictions. Progress should be accompanied by rational, rather than irrational, control, and by democratic, rather than autocratic, forms of social control.'

'The present problem of social control is to achieve a "scientific morality," *i.e.*, a code of social ethics which is objectively determined, and which is sufficiently plastic to be modified as our social and economic organization changes. A scientific morality has been defined as that code of conduct, rationally determined, which makes for group longevity!'

<sup>1</sup> CARVER, T. N., "Essays in Social Justice," chap. 1.



This new social morality must be enforced by an intelligent public opinion, rather than by intolerant customs. Its converts must be won by education, rather than by compulsion. Its authority must be that of reason, rather than that of blind tradition. It should be inspired by the love of one's fellow men, social esteem, and the hope of better things, rather than by fear of the physical forces of a powerful king or the supernatural powers of a mysterious priest.

**2. Stages and Institutions of Social Control.**—There are three general stages in the evolution of social control, *viz.*, custom, public opinion, and law. The folkways<sup>1</sup> become mores as a given custom, rite, or traditional routine is associated with group welfare. As history progresses, the unwritten law of custom is succeeded by the written law of the statute book.

Public opinion must first formulate itself before it finally crystallizes into law. Illustrations may be found in the history of the 8-hour day, minimum-wage laws, and child-labor legislation. It must not be thought, however, that law ever entirely supplants custom and public opinion as the sole agency of social control. The activities of individuals are as much influenced by the customs of the age and the public opinion of the day as by the laws of the land.

Each of the many social groups to which an individual belongs has its own standards and agencies of social control. Thus we speak of the professional ethics of a physician or lawyer as different from those of the business world. Even among the laboring classes themselves, sabotage is condemned by one group and condoned by another. Moreover, the strength, as well as the forms, of social control differ greatly among various economic groups.

'All social institutions are agencies of social control, each of which influences our industrial life and is influenced by it in turn. Among the most prominent social institutions are the state, the church, the family, the school, and such economic institutions as are component parts of modern capitalism.' It will be recalled from the first chapter that these include individual enterprise, freedom of contract, private property, the profits motive, and the price system.

To the student of modern industry the political institution of the state and the economic institutions of capitalism are of vital importance. Moreover, each has supported the other, and each has adapted itself to the other. Recent revolutions have brought about changes, not merely in either political or economic institutions, but rather interrelated and simultaneous changes in both political and economic institutions.

The family was an important institution of social control in the past; but modern city life and the factory system have weakened the economic importance which the family formerly possessed under the domestic

<sup>1</sup> SUMNER, W. G., "Folkways."

system of production. On the other hand, the school has increased in importance as an institution of social control.

During the medieval period, the church, rather than the state, was the dominant institution of social control. Toward the close of this period, however, the kings achieved their independence from the papacy and their supremacy over the feudal barons. Constitutional democracies gradually achieved the separation of church and state. The church now continues to be an institution of social control merely by its spiritual authority. Modern churchmen, however, like the prophets of ancient Israel, occasionally concern themselves with broad questions of civic righteousness, economic welfare, and social justice.

Other agencies of social control, which might be of far greater and more beneficial influence for increased social welfare than at present, are the newspaper, the theater, and the motion picture. Too often, however, they cater to existing social attitudes and prejudices, rather than boldly holding up the highest and best social ideals before their millions of patrons. For illustration, they often feature the achievement of great wealth without commensurate production, individual acquisition rather than social service, the lure of leisure rather than the dignity of labor, and conspicuous consumption rather than thrift and industry.

**3. Development of Governmental Control of Industry.**—During the Middle Ages what is now known as the national state was practically non-existent. Under feudalism the manor was the economic, social, and political unit. What social control of industry existed was local. This local regulation of industry was frequently predatory rather than beneficial. Thus robber barons frequently preyed on what little commerce crossed their domains and generally exploited their serfs in favor of the military hierarchy of vassals and men-at-arms.

Medieval guilds were local organizations for the control of industry. They formulated and enforced the most minute regulations concerning the occupations of their members. Thus night work was frequently prohibited, weights and measures were regulated, and the adulteration or cheapening of products was forbidden.

With the decline of feudalism, the manorial system, and the guilds, a new program of governmental control, known as the "national system," developed. As strong central governments evolved out of the former feudal confusion, they began to regulate industry and commerce. In England, for illustration, the strong monarchy of the Tudors reflected itself in economic as well as political measures. The Statutes of Apprentices made labor compulsory and imposed on the local justice of the peace the duty of fixing wages. The economic philosophy of this period, known as "mercantilism," reached its greatest development in the seventeenth century. Mercantilism emphasized foreign trade and measured national prosperity in terms of a favorable balance of trade. All sorts of national-

istic regulations were imposed on commerce and industry in order to accomplish this desired result.

**4. Rise and Fall of Laissez-faire.**—A reaction finally set in against this extreme nationalism and against governmental interference with industry. In 1776 appeared Adam Smith's "Wealth of Nations," a book which had great influence on both economic theories and practices. The "father of economics" made his central thesis that of *laissez-faire* or the let-alone policy. He argued the case for free trade among nations and strove to show that industry would flourish best when freed from the vexatious interference of governments. Adam Smith regarded the functions of government as limited to three fields: the protection of its citizens from foreign invasion, the maintenance of justice at home through the courts, and the establishment of certain public works and institutions which were uneconomical for individuals themselves to maintain.

The economic philosophy of *laissez-faire* was gradually translated into the actions of statesmen. The British parliaments of the early years of the nineteenth century removed a number of the older restrictions on trade and industry. Thus the Statute of Apprentices, which permitted wage fixing, and the Corn Laws, which prevented the free importation of grain, were finally repealed. The doctrines of *laissez-faire* were eagerly seized upon by the rising manufacturing class, as it opposed governmental interference with working conditions. Indeed, the theory is sometimes called that of the Manchester School, because of its advocacy by those manufacturers.

The industrial revolution, however, brought about new conditions which made untenable the former theory of *laissez-faire*, or let alone, in industry. 'Under the dominance of a philosophy of individualism little children and mothers toiled in factories and mines under unthinkable conditions. England was confronted with a condition as well as with a theory. 'In spite of the hold of *laissez-faire*, labor laws and other humanitarian legislation gradually came into existence.'

Because of the bargaining disadvantages of the individual workers, they sought to organize into trade unions and to negotiate collectively as to wages, hours of work, and general conditions of employment. 'But collective bargaining was regarded by *laissez-faire* economists as a futile attempt to interfere with the natural forces which determined wages, or as a socially undesirable effort to substitute monopoly for competition. Collective bargaining was regarded by both common and statute laws as conspiracy. But as the *laissez-faire* attitude began to wane, governments gradually removed many of the obstacles which had been placed in the path of early labor organizations. The recognition and regulation of collective bargaining succeeded the former governmental attitude of open hostility.'

The last century witnessed a tremendous growth of governmental functions and of collective economic effort. During the World War, increased cooperation became imperative, and governments deliberately shaped the industrial activities of their peoples. Consciously or unconsciously, the former theory of *laissez-faire* has become a matter of mere historical interest. Although numerous individuals are pleading for "less government in business," a return to the *laissez-faire* of Adam Smith is unthinkable. Whether the future will witness a further development of the governmental regulation of industry, or a reaction in the other direction, remains to be seen. To the student of economic history, however, it is interesting to see how the pendulum has swung from mercantilism or the national system toward *laissez-faire*, and then from *laissez-faire* back again toward governmental regulation.

**5. Laissez-faire and Liberty.**—One of the chief arguments used in support of *laissez-faire* was that it was essential to individual liberty. Freedom was incorrectly interpreted as the absence of governmental interference with the actions of people! Nothing could be further from the truth, for government exists to protect the liberty of individuals, rather than to restrict it. Indeed, the liberty of all individuals is secure only when the government is strong enough to punish lawlessness and license.<sup>6</sup> This confusion of thought which made liberty identical with *laissez-faire* can be understood only by remembering the despotic and arbitrary character of the governments of the Stuarts and Bourbons. Under such a régime the chief threat to individual freedom came from an autocratic, central government.

Although it may have been true before the French Revolution that individual liberty could be secured only by a curtailment of the powers of government, which then resided in the person of a despotic king, it does not follow that freedom and government are opposing concepts. Nor are *laissez-faire* and freedom identical. The best government is not necessarily that which governs the least. Even the townsmen and merchants of the Middle Ages knew that the strong monarchy of the sovereign king was their best protection against the lawlessness of the feudal barons. In a modern democracy liberty is to be found in a strong and capable representative government, rather than in the playing off of one tyrant against another.

Law and liberty are as closely related as government and freedom. The liberty of all individuals can be secured only by enough legislation to protect the weak against the strong, the unprivileged against the privileged, and the social members of society against the unsocial. This is the new freedom, secured only by a strong and efficient governmental regulation of industry.

The interdependence of individuals and the social character of business were stressed in Chap. I. The social revolution of the New Deal of 1933

was an attempt to force industry to formulate, impose, and enforce on itself certain standards of fair competition and of wholesome working conditions. If this experiment fails, the only remaining alternatives are direct regulation by government itself or outright governmental ownership and operation. But whatever the outcome may be, a complete return to the former rugged individualism and industrial anarchy seems impossible.

Although an extension of paternalism may point toward socialism, it is equally true that the logical extreme of the opposite philosophy of *laissez-faire* leads toward anarchism, which is the complete absence of government as now expressed in the political state. Under anarchism the rights of the weak may be ignored by the strong. Hence, anarchism, or too little government, may be a greater threat to individual liberty than socialism, or too much government.

**6. Economic Aspects of Government.**—Numerous attempts have been made to classify the functions of government. Some writers differentiate between the primary functions of the state, such as protection from foreign invasion and domestic disorder, and the secondary functions of the state, such as the regulation of industry.

These latter functions may be subdivided according to those occupations which are primarily predatory, those which are characterized by legitimate and beneficial competition, and those which are natural monopolies. Predatory occupations should be suppressed, and the plane of competition should be regulated in the second group of industries. Those industries in which competition is self-destructive should be recognized as natural monopolies, to be placed under governmental operation or strict governmental regulation.

The general problem of the social control of industry may be approached from a still different angle. Governmental regulation of industry may be classified according to whether it is exerted in the interest of consumers, workers, investors, or the general public.

Governmental interference for the protection of consumers may be illustrated by pure-food laws. Again, the state has been forced to regulate railroad rates and services in order to prevent discrimination and predatory practices.

In the second place, the interests of the workers have been profoundly affected by the invention of power machinery and the development of the factory system. Illustrations of governmental regulation of conditions of labor are factory laws in the interests of safety and health, social insurance, legislation limiting the hours of work, minimum-wage laws for women, etc. It is with this general type of governmental interference with industry that this text is chiefly concerned.

The state has sought to protect the investor, as well as the consumer and the worker. The corporate form of business organization has

divorced ownership from control and facilitated the possibility of financial manipulation. Hence, many states have passed "blue-sky" laws to prevent the development of fraudulent concerns.

Finally, there are numerous miscellaneous regulations of industry which governments have initiated for the protection of the general public. The conservation of forests and the restriction of immigration may be classified under this type of government regulation.

**7. Increasing Social Services of Government.**—The expansion of governmental functions from the primary one of protecting its citizens to the secondary one of regulating industry has been briefly outlined. Governmental activities have further expanded into still broader social functions. In addition to the regulation of industry, governments are now seeking to perform new services for its citizens or old services in a better or more thorough manner.

The increasing congestion of population and the growing interdependence of society have increased the number of things which can best be done collectively. Common illustrations are the supplying of water, gas, and electricity and the disposal of sewage, garbage, and other refuse. Although often done by individual enterprise under governmental supervision, they may be done directly by the state or the city itself. Relatively old functions of government were the building of roads, bridges, and aqueducts. Municipal subways and improved transportation facilities are equally legitimate governmental functions in our modern machine age.

Certain new functions of government, which are more social and less economic in character, are coming into increased prominence. Among them are those of public health and recreation. Education has long been regarded as an important public function. Magnificent public high schools, the people's colleges, can now be found in almost every large town in the United States. Public health, however, would seem to be as important as public education and as worthy of state funds. A poor child is educated at public expense, for the entire group benefits from an educated citizenry and suffers from popular ignorance. Is not the same argument sound for an extensive program of public health? It would seem as if the state might well inquire into the physical fitness, as well as the literacy, of its citizens, and that it should provide adequate medical, surgical, and dental facilities for those who are too poor to provide them for themselves.

Although the concept of public hospitals similar to public schools is fairly new, numerous free clinics, especially for school children, have been in existence for many years. Numerous governmental agencies are making a heroic attempt to reduce infant mortality and the hazards of maternity. A public sanitation and quarantine program also is fairly well advanced. State and municipal departments of public health are

constantly extending their functions, powers, and opportunities for public service.

Recreation is closely allied to health. It is as important a function of government as education. Hence modern cities have established public playgrounds and extensive parks and boulevards. Numerous well-equipped and well-organized community centers testify to our recent civic progress. Free libraries, public art galleries, and museums of science also have been established by progressive communities. Modern educators are stressing adult education through such public agencies of continued mental stimulation.

Many of these new community enterprises were at first established by private philanthropy. Later they came to be regarded as public trusts and as legitimate functions of government. Such was the history of public education; this development now is apparently being repeated by the public health and recreation movements.

Municipal opera houses and community theaters may be as common in the America of tomorrow as are municipal swimming pools and community playgrounds today. Public hospitals may come to be regarded in the same light as public schools are now. A new ideal of social service seems to be coloring our changing concept of government.

These new social functions of government are of peculiar interest to the student of labor problems. The public health and recreation movements mean as much to the workers as does the public-education movement. Increased leisure must be directed into wholesome and beneficial channels and diverted from less desirable and more highly commercialized amusements. Moreover, working efficiency itself, as well as the ability to enjoy the best things of life, will be increased.

In addition to these enlarged social functions of the state there are some new governmental services of even more direct interest to the workers. Thus public employment bureaus have been established by progressive states and cities in order to assist in finding employment for the unemployed. Again, boards of mediation and conciliation have been established for the reduction of industrial conflicts. Some progressive communities have built municipal tenements, which are run at cost, to furnish improved housing facilities to the workers.

**8. Social Concept of Private Property.**—An increase in the economic functions of government and an extension of its social services are frequently opposed by honest but conservative defenders of individual enterprise and also by vested interests whose private profits are threatened. Hence it seems necessary to stress the social nature of the institution of private property.

In their final analysis, private property rights emanate from society. Therefore, they can be modified by society's sober judgment, reversed in the light of new conditions, or extended by higher ideals of social

justice. No matter what theory of private property is held, that institution can be defended only on the broad grounds of social welfare, rather than in the narrow path of individual expediency. Although the hold of the vested interests may be strong, any form of private property must go when it becomes inimical to what can be demonstrated to be the best interests of society.

Private property rights are relative, modifiable, and social, rather than absolute, unchangeable, and individualistic concepts. The courts themselves have decided that the power to tax is the power to destroy, and this power may be levied against a property right. On the other hand, it is equally important to note the danger of any sweeping indictment of such an institution as that of private property. Qualifications must be made concerning different kinds and forms of property rights. A thoughtful man may seek changes in the political state or some modification of private property rights, but not the complete and immediate abolition of these two important institutions.

**9. Modern Critics of the Institution of Private Property.**—Our social morality is changing and with it our ideas concerning the institution of private property. Within the memory of a few individuals still living, human slavery existed in this country and was enforced by the laws of the land. It required a bloody Civil War to amend the Constitution and to modify our institution of private property in this respect. Today this institution is still under fire by various schools of economic abolitionists and revisionists.

The single taxer contends that "the earth is the Lord's and the fullness thereof." Natural resources are a free gift of nature and not the result of the labor of man. The appropriation of this common heritage for their own use or abuse by powerful but selfish individuals is regarded as little worse than the appropriation of the persons and services of one's fellow-men. Consequently, the single taxer would abolish or seriously modify the institution of private property in land.

The socialist would go one step farther in his war against capitalism, for he objects to private property rights in capital as well as land. Although land is a free gift of nature, capital is the result of labor. However, society should own its capital collectively and should reward production rather than mere ownership.

The communist goes even farther, for he opposes the institution of private property in general. The anarchist would destroy the present political state, which is the great bulwark of the institution of private property.

More conservative reformers approach the problem from a different angle. They would not confiscate private property in land or capital, but they would limit the right to bequeath enormous fortunes. As the right of inheritance is viewed as the chief source of economic inequality,



these critics suggest that each individual be compelled to stand on his own feet rather than be carried on the shoulders of his father. Partly from social policy and partly for the sake of additional revenue, governments have turned to progressive inheritance taxes, as well as to progressive income taxes.

**10. Property Rights and Human Rights.**—Some critics of our economic order have pointed out the perennial conflict between property rights and human rights. When a newly recognized human right conflicts with an old established property right, the latter must go. Thus our forefathers recognized the institution of human slavery, and slave owners possessed the valid, legal right to own and to exploit their fellow men! The abolition of slavery was confiscatory of the property right of slave owners in favor of the human right of the slaves to their individual liberty. The abolitionists of the North spoke of a higher law than that of the United States, and John Brown was willing to give his life for a cause which was morally right but legally wrong. A modification of the antebellum institution of private property was demanded by rising ideals of social justice.

The selfish maintenance of certain property rights today may conflict with the human rights of various exploited and propertyless groups. Thus, the mandatory minimum-wage law may interfere with the right of freedom of contract, and laws for the improvement of working conditions may be inimical to existing property rights. On the other hand, there is the human right of laborers to live decently and to work in healthy surroundings for only a reasonable length of time. In contrast to the former attitude that business was an individual venture of the employer, there is growing up a concept of industry as a social responsibility. Large fortunes are now regarded by some owners as public trusts, rather than as individual property rights. As the growing functions of government attest the increasing socialization of industry, so the growing powers of government attest the increasing limitations on individual rights.

**11. Labor Problems and the Federal Nature of Our Government.**—The United States is a federal government and Congress possesses only those powers which are specifically given to it in the Constitution. All residual rights and powers are vested in the several states.

The small but important provision in the Constitution which gives to Congress the power to regulate interstate commerce has been the legal rock on which has developed Federal control of the railroads and of the trusts. The progress of social and humanitarian legislation in the United States has been retarded by the fact that these matters fall largely within the province of the individual states.

Labor legislation was essentially state legislation. Hence uniformity was well-nigh impossible. Again, strict regulation within one state

can cause an industry to seek refuge across its boundary. This mere threat has sometimes been sufficient to defeat within a given state the passage of desirable labor legislation. Federal legislation is the only means of securing uniformity, and in many cases such Federal legislation would require a Constitutional amendment. This was the case with child-labor laws, minimum-wage laws for women, a universal 8-hour day, and the regulation of dangerous trades, only a few of which problems fall within the province of the interstate-commerce powers of Congress.

The Federal nature of our government, however, has its advantages as well as its disadvantages. Although it may be impossible to pass a certain labor law within Congress, public opinion in one or more of the several states may sanction it. Hence the legislation of progressive states may be in advance of that of the entire country. The Federal nature of our government makes possible experimentation with various types of labor legislation and with different reform projects. Thus, Kansas, Wisconsin, California, and several other states have been experimental laboratories, the results of which have been watched with great interest by the entire country.

Although the United States is a Federal government rather than a unitary one, an increased centralization of power has been taking place. Thus the individual states have been increasing their authority over health and education, which were formerly regarded as local matters. Again, the Federal government has been increasing its powers at the expense of the states. This tendency may be illustrated by the growing practice of extending Federal subsidies to states which cooperate in building roads or raising standards of vocational education. The socialization of government within the United States has been accompanied by a centralization of power. The location of these enlarged functions of government is as interesting as their mere multiplication.

**12. Labor Problems and the Constitution.**—The Constitution of the United States was formulated in the period of *laissez-faire* and in the pioneer atmosphere of individualism. Colonial America was agricultural and not industrial. The Declaration of Independence, the product of a revolutionary era, affirmed our belief in certain natural or inalienable rights of life, liberty, and the pursuit of happiness. The Constitution, drawn up in a more conservative decade, stressed the right of property, as well as the rights of life and liberty.

Equality before the law of all free men was a democratic ideal of the eighteenth century, but equality of opportunity and equality of economic conditions were not as yet envisioned. The democracy of the Fathers was a political rather than an economic idealization. These factors determined the nature of the Constitution of the United States and the character of the early amendments to it. Civil and political rights were

stressed, and citizens were granted protection against the encroachments of an arbitrary central government.

The fact that the United States is a constitutional democracy with a written constitution is very important to the student of labor problems. Although possessing many advantages over a democracy without a written constitution, any written constitution, no matter how good and liberal in its day, must later present a serious problem of adjustment to a dynamic, growing society. Although economic conditions have changed rapidly during the past century, it has been difficult to amend the Constitution in many important respects. Consequently, legislation which attempts to crystallize changes in public opinion and to meet new problems, or changing aspects of old ones, must meet continually the test of constitutionality.

This difficulty has been peculiarly acute for labor legislation, for the industrialization of the United States and the development of labor problems took place several generations after the adoption of the Federal Constitution. The test of the constitutionality of labor legislation is a difficulty which is not faced by a country such as Great Britain, which does not have a written constitution, and whose Parliament can pass whatever legislation it regards as most suitable for new conditions. Such legislation can easily be repealed or amended in the light of practical experience, but it cannot be declared unconstitutional.

On the other hand, there are certain advantages of a written constitution to the individual citizen. Former Chief Justice Taft stated its case as follows:

The Constitution was intended, its very purpose was, to prevent experiment with the fundamental rights of the individual. We said through Mr. Justice Brewer in *Muller vs. Oregon* that "it is the peculiar value of a written constitution that it places in unchanging form limitations upon legislative action, and thus gives a permanence and stability to popular government which would otherwise be lacking."<sup>1</sup>

**13. Individual Freedom and the Constitutional Guarantees.**—The early amendments to the Constitution, known as the "Bill of Rights," were designed to preserve the individual liberties of our citizens against the encroachment of the Federal government. Thus, the Fifth Amendment provides that no citizen shall be deprived of life, liberty, or property without due process of law by an act of Congress. The Fourteenth Amendment, which was designed to give the Negro the legal protection of the rights of citizenship, provides that no state shall pass a law depriving its citizens of life, liberty, and property without due process of law. Similar guarantees of individual liberty are contained in the constitutions of most individual states.

<sup>1</sup> *Truax vs. Corrigan*, 257 U. S. 312, 1921.

As the right of property has been held by the courts to include freedom of contract, it is difficult for either the national government or any state to pass a law which abridges this freedom of contract of worker or employer. The courts have held that certain labor laws interfere with the legal right of freedom of contract. Hence these so-called "constitutional protections" have often meant that the actual economic freedom of the worker has been sacrificed to his theoretical legal rights.

The situation is further involved by another constitutional proviso that "no state shall . . . pass any . . . law impairing the obligation of contracts."<sup>1</sup> This constitutional clause was inserted to prevent a repudiation of debts by the states. Its practical result has been to make difficult the regulation of public utilities and corporations. It has also been an occasional obstacle in the path of labor legislation.

**14. Legal Equality and Economic Inequality.**—The constitutional guarantees of life, liberty, and property, the "due process of law" phrase, and other clauses in the Constitution have expressed our belief in the vital importance of equality before the law. Indeed, equality before the law is far older than the Federal Constitution of the United States. It is regarded as the legal birthright of all citizens under common, as well as constitutional, law.

Legal equality, however, must be distinguished from biological equality, on the one hand, and economic equality, on the other. Individuals are not born with equal physical or mental abilities; nor are they born into similar social environments.

Equality before the law does not necessarily insure economic liberty, for freedom can be enjoyed only when one possesses the same powers, privileges, and opportunities enjoyed by others. Political equality is not the same as economic equality, and equality before the law is not identical with equality of opportunity in the business of getting a living. Herein lies the argument in favor of minimum-wage laws for women or other groups which possess so little bargaining power that they are in danger of being exploited by a more powerful group.

**15. Discrimination and Class Legislation.**—Opponents of such legislation regard it as a violation of the legal right of freedom of contract or as class legislation. All legislation, however, is discriminatory, and the cry of class legislation can be brought against almost any new law. But a law cannot properly be regarded as class legislation unless it is unreasonable in its provisions, *i.e.*, unless it is not designed to serve any useful object, or unless its social purpose is not commensurate with the injury inflicted. Thus a law forbidding the wearing of fur coats would be an unreasonable discrimination against individuals owning these luxuries, but the forbidding of smoking in street cars is a reasonable discrimination against smokers in favor of the general interest of the riding public.

<sup>1</sup> Art. I, Sec. 10.

The latter ordinance, unlike the former, serves a social purpose. Hence it cannot be regarded as an unreasonable discrimination. It does not violate equality before the law.

Many pieces of labor legislation have improperly been called violations of legal equality, because they have taken cognizance of economic inequalities and have legislated differently for different groups. The principle of equity has been invoked to protect the weak bargainer in the wage contract. This has been true even where its use sacrificed the worker's legal freedom. Economic insecurity and even exploitation have been possible under freedom of contract, as well as under a condition of status.

**16. True Nature of Equality before the Law.**—The principle of equality before the law cannot mean that all persons must be treated similarly under all conditions, but only that equal conditions receive similar treatment.

Labor legislation has passed from the old dispensation which treated of the legal relationship between master and servant to the new dispensation which treats of the rights and duties of employer and employee. Although the former master and servant relationship pretended to treat the two as equals before the law, it retained important characteristics of an earlier servile state, in which the laborer's body belonged to his master or creditor.

In order to raise the legal status of the worker from that of servant to that of employee, the law found it necessary to recognize important differences in the economic conditions of employer and employee. It sought to provide a real rather than a fictitious equality before the law by coming to the rescue of the group in the inferior bargaining position. Otherwise, economic inequalities between employer and employee under modern conditions of capitalistic production would reduce the employee to a servile state.

**17. Labor Legislation and the Police Power of the State.**—The police power of the state has been invoked to defend the passage of labor laws and other social legislation which encroaches on individual liberty, property, and freedom of contract. It may be regarded as a residual right of the state to pass legislation or to enforce executive mandates when the social interest requires that the guarantees of either the Federal or state constitution be sacrificed to the common safety, health, or welfare of the group.

The police power has been defined as "that power of the courts granted to them by the American constitution, whereby they must shape property and contract to existing social conditions by settling the question of how far social regulations may without compensation impose burdens on property."<sup>1</sup> Again, "The police power is an indefinite authorization

<sup>1</sup> ELY, R. T., "Property and Contract," vol. 1, p. 220.

for the American state to abridge liberty or property without consent or compensation in addition to its more general powers."<sup>1</sup>

Under the police power of the state an individual suffering from a contagious disease may be deprived of his liberty in the interests of the health of his fellow citizens by an enforced quarantine. Again, cattle suffering from the hoof and mouth disease may be confiscated and killed, which represents the taking of property without compensation, in order to protect the property of other members of the group. But in all such actions it must be clear that the loss to the individual is less than the gain to society.

The police power of the state has an important bearing on labor legislation, a large portion of which looks to it for its authorization. Thus the police power of the state has been used to justify the passage of child-labor legislation, laws for the restriction of hours of work and conditions of employment of women, and safety legislation for all employees.

The effect of the police power is to impose a burden, or to exercise a restraint, on some individuals for the benefit of all other individuals. But the final defense of such legislation rests on whether or not a public danger is threatened or a public benefit is gained. Otherwise, such legislation represents special privilege or class discrimination. The sovereign power of government must not be used to further private purposes, whether they be those of certain groups of manufacturers or those of trade unionists, the special interest of capital or of labor.

The states accomplish under the police power what the Federal government accomplishes under its taxing powers or under its interstate commerce powers. But the concept of the police power may be used in a broader sense

. . . to imply all the powers of government, whether of police, taxation or interstate commerce, in so far as they are used to justify that indefinite expansion of power to abridge liberty or property without compensation for some newly recognized public purpose . . . In this way without formal amendment the American constitutions are unconsciously amended by the police power through the change of public opinion regarding the rights and liberties of labor.<sup>2</sup>

**18. Judicial Interpretation of the Police Power.**—The Supreme Court of the United States has interpreted the police power of the state as follows:

We hold that the police power of a state embraces regulations designed to promote the public convenience or the general prosperity as well as regulations designed to promote the public health, the public morals or the public safety.<sup>3</sup>

<sup>1</sup> COMMONS, J. R., and J. B. ANDREWS, "Principles of Labor Legislation," rev. ed., p. 13, 1927.

<sup>2</sup> *Ibid.*, p. 17.

<sup>3</sup> *C. B. & Q. Railway vs. Drainage Commissioners*, 200 U. S. 561, 1905.

It is the business of legislation "to determine primarily what means are appropriate or needful for the protection of the public morals, the public health, or the public safety," but there are, of necessity, "limits beyond which legislation may not rightfully go," and it becomes uncertain when it bears "no real or substitute relation to these objects; or is a palpable invasion of rights secured by federal law."<sup>1</sup>

As early as 1894 the Supreme Court had declared:

While it may be conceded that, generally speaking, among the inalienable rights of a citizen is that of liberty of contract, yet such liberty is not absolute and universal. It is within the undoubted power of government to restrain some individuals from all contracts as well as all individuals from some contracts.<sup>2</sup>

The police power of the state is not only a rather indefinite concept, but also it is a constantly growing one. It has been expanded constantly to meet the new needs of modern industrial life. Although such a law was declared to be unconstitutional by the Supreme Court of Illinois in 1895, at the present time the courts are upholding laws which forbid women from working more than 8 hours a day. This change in judicial attitude began to manifest itself about the beginning of the present century.

In 1898, the Utah 8-hour law for miners was held to be constitutional by the Supreme Court of the United States in the following broad, social declaration.

The fact that both parties are of full age and competent to contract does not necessarily deprive the state of the power to interfere, where the parties do not stand upon an equality or where the public health demands that one party to the contract shall be protected against himself. The state still retains an interest in his welfare, however reckless he may be. The whole is no greater than the sum of its parts, and where the individual health, safety or welfare is neglected, the state must suffer.<sup>3</sup>

It will be noted that this decision involved a very broad extension of the police power of the state. Not only could the government interfere because of existing inequalities in bargaining powers of the two parties to the contract, but also it could interfere to protect a reckless or ignorant individual against his own actions. From an individual point of view it would seem that a citizen does have certain inalienable rights, such as health and safety, which the state will not permit even himself to barter away. From a social point of view it would seem that individuals' health and safety are regarded as essential to group welfare. Such paternalism did not exist in the *laissez-faire* philosophy of a century ago.

There have been numerous other court decisions in conflict with such a broad social attitude. Thus, in 1905, the Supreme Court held

<sup>1</sup> *Mugler vs. Kansas*, 123 U. S. 623, 1887.

<sup>2</sup> *Frisbie vs. U. S.*, 157 U. S. 160, 1894.

<sup>3</sup> *Holden vs. Hardy*, 169 U. S. 366, 1898.

unconstitutional a New York law limiting the hours of bakers.<sup>1</sup> The court regarded excessive hours of labor in this industry as less detrimental to public welfare than in the case of the miners. It did not wish to weaken the constitutional guarantee of freedom of contract by a further extension of the police power.

A mandatory minimum-wage law for women, passed by Congress for the District of Columbia, was declared in 1923 by the Supreme Court<sup>2</sup> of the United States to be an unconstitutional interference with the constitutional guarantee of freedom of contract. Although the court admitted that freedom was not absolute, it held that it should be regarded as the general rule. Although subject to restraint, such restraint was to be regarded as exceptional. Any legislative abridgment of freedom of contract had to be justified by exceptional circumstances.

The very extreme of reaction was represented by an earlier Supreme Court decision of 1908, which went so far as to declare that there should be no interference with the right to accept or to refuse unemployment.

In all such particulars the employer and the employee have equality of right and any legislation that disturbs that equality is an arbitrary interference with the liberty of contract which no government can justify in a free land.<sup>3</sup>

**19. Recent Broadening of Our Political Philosophy.**—The general outlines of the industrial revolution were sketched in Chap. I. The new industrial revolution, which took place in the United States during the period of the World War and the postwar decade, will be treated in more detail in Chap. IV. In concluding this chapter, however, it is necessary to observe that these recent developments have intensified our social interdependence, enlarged the scope of collective production and consumption, and increased the necessity of government regulation—if not nationalization—of big business.

Important social aspects of our dynamic industrial order were ignored in the great economic prosperity from 1922 to 1929, but the severe depression from 1929 to 1933 brought this country so close to the brink of revolution that the insistent dilemma of modern industrialism, referred to in the first chapter, could be ignored no longer.

These critical years of unprecedented depression were followed by drastic legislative experiments in a heroic attempt at recovery. What changes in our legal philosophy were involved, and what alterations in our administrative structure have taken place! What more does the future hold in store for us, if the past is any guide to the future? Will the courts interpret this new legislation in a strict or a loose fashion, in keeping with past traditions or in the spirit of the "New Deal"? Perhaps

<sup>1</sup> *Lochner vs. New York*, 198 U. S. 45, 1905.

<sup>2</sup> *Adkins vs. Children's Hospital*, 261 U. S. 525, 1923.

<sup>3</sup> *Adair vs. U. S.*, 208 U. S. 161, 1908.



court decisions will be deferred until the emergency has passed into history? Finally, were these changes in our political theory revolutionary, created suddenly in March, 1933, or were they evolutionary, conceived in previous decades but born of the labor pains suffered from 1929 to 1933?

**20. Evolution of Increased Governmental Control of Industry.**—The *laissez-faire* philosophy of Jefferson and Jackson, two patron saints of the Democratic Party, was that of the country squire and the frontiersman. Individualism was popular as long as America was largely agricultural in character and blessed with an abundance of free land. But the industrialization of the United States after the Civil War transformed this "let-alone" attitude of the small farmer into the *laissez-faire* doctrine of big business and the privateering policy of high finance. The Sherman Act of 1890 was an attempt to enforce the fair and free competition of the small tradesman on the huge corporation of a new era—a clumsy effort to put the new wine of changed economic conditions into the old bottle of a well-worn political philosophy. The unsuccessful result of this policy of "trust busting" is now recorded in the history of the generation before 1929.

As early as the administration of Theodore Roosevelt there were some indications of an abandonment of the older philosophy of *laissez-faire* in favor of the revived doctrine of strong government, which showed itself definitely in a more vigorous policy on the part of the Federal executive. This new tendency was displayed positively in Theodore Roosevelt's attempt to settle the anthracite strike, as well as negatively in his crusade against the trusts. In the first instance, the "big stick" was supported more by public opinion than by constitutional authority.

Although the administration of President Taft represented somewhat of a reaction toward greater conservatism on the part of the Federal executive, these four years witnessed the passage of numerous state laws concerning child labor, minimum wages for women, workmen's compensation, and other social problems of industry. *Laissez-faire* was waning more rapidly in the individual states than in the national government, which possessed merely those powers granted it by the Constitution.

The "New Freedom" of Woodrow Wilson is now regarded as a prelude to the "New Deal" of Franklin Roosevelt. Although confined to relatively minor problems during Wilson's first administration, it was necessarily expanded during his second administration by the exigencies of the World War. This great emergency called for concerted collective action rather than "business as usual," as was at first assumed. Constitutional guarantees were ignored and the vestiges of *laissez-faire* were sloughed off. Especially created war-time administrative officers and boards operated the railroads and controlled essential industries. Competition gave way to cooperation and freedom of contract bowed

before a governmental policy of price fixing for certain essential commodities and services. A regimented economic society, which resulted from deliberate Federal control and planning, continued to function until after the signing of the Armistice.

The administration of Harding and Coolidge represented a "return to normalcy" and an earlier political philosophy of "less government in business." Nevertheless, numerous states made some additional progress toward enlightened social and industrial legislation. The "rugged individualism" of Herbert Hoover, continuing the same Federal tradition of the two earlier administrations, made a desperate last stand in the great economic depression of 1929 to 1932, until extinguished by the overwhelming returns of the following Presidential election. But even rugged individualism yielded to the stern necessity of some governmental action during this great crisis and the Reconstruction Finance Corporation was created.

**21. Political Revolution in the New Deal of 1933.**—The first special session of Congress under President Franklin D. Roosevelt passed in short order the Industrial Recovery Act, farm relief measures, the Federal Securities Act, the Home Owners Refinancing Act, the Railroad Reorganization Act, the Muscle Shoals Development Act, and various other measures which widened the scope of the Federal government and increased the power of the President to a degree unprecedented in peace times. The far-reaching influences of this new legislation were at once apparent. But their legal authorization and their constitutional bases were somewhat more obscure.

The National Industrial Recovery Act of 1933 invited business to clean house for itself by the formulation of various industrial codes. But the government held the whip hand by its power to license only those industries whose codes were satisfactory in their protection of labor and in their conservation of public interests. Moreover, the President could, and did, impose a blanket code on non-cooperating or dilatory industries.

The great significance of this emergency legislation to students of labor problems is apparent. Employment, hours of work, conditions of labor, and even minimum wages for men, as well as for women, were brought under the control of the executive branch of the Federal government. The objectives of the proposed child-labor amendment, so long delayed in ratification by the states, were suddenly realized in some of these "voluntary," cooperative, industrial codes which outlawed many of the past evils of child labor.

The new administrative machinery was as complex as the new enabling legislation had been revolutionary. The powers of the Chief Executive were enormously increased. Moreover, he was empowered to appoint Federal coordinators for the railroads and an "industrial

czar" for big business. Economic planning, as well as industrial control, by the Federal government bade fair to bury, not only the economic philosophy of *laissez-faire*, but also the political theory of a separation of powers between the Federal and state governments, and among the executive, legislative, and judicial branches of the national government. The following generation will refer not only to the great economic depression, but also to the great political revolution which followed in its wake.

**22. National Industrial Recovery Act.**—The National Industrial Recovery Act of 1933 was so important a piece of economic legislation, particularly to students of labor problems, that the following chapters will make numerous references to it and the various industrial codes submitted or imposed in conformity with its general provisions in the matters of wages, hours, and other social aspects of industry. Only the general purpose, policy, and governmental philosophy underlying this epoch-making piece of legislation can be brought out in this introductory chapter. With this aim in view it may be well, in conclusion, to quote the preamble contained in Sec. 1 of the National Industrial Recovery Act and to note the enacting clauses.

A national emergency productive of widespread unemployment and disorganization of industry, which burdens interstate and foreign commerce, affects the public welfare, and undermines the standards of living of the American people is hereby declared to exist. It is hereby declared to be the policy of Congress to remove obstructions to the free flow of interstate and foreign commerce which tend to diminish the amount thereof; and to provide for the general welfare by promoting the organization of industry for the purpose of cooperative action among trade groups, to induce and maintain united action of labor and management under adequate governmental sanctions and supervision, to eliminate unfair competitive practices, to promote the fullest possible utilization of the present productive capacity of industries, to avoid undue restriction of production (except as may be temporarily required), to increase the consumption of industrial and agricultural products by increasing purchasing power, to reduce and relieve unemployment, to improve standards of labor and otherwise to rehabilitate industry and to conserve natural resources.

Section 2 authorized the President to establish administrative agencies and to delegate his sweeping powers to such officers as he might appoint. It also declared that this law and the administrative agencies created under its authority should cease to exist at the expiration of two years after its date of enactment, "or sooner if the President shall by proclamation or Congress shall by joint resolution declare that the emergency recognized by section 1 has ended."

Later sections empowered the President to approve a code submitted by a trade association or an industrial group after which it should be recognized by law and the Federal Trade Commission as the standard

of fair competition in that particular industry, deviations from which should be punished. The President was given the power to cancel or modify any code or to impose a code on any trade association or industrial group which failed to submit a satisfactory one.

**23. Summary.**—Social control is the influence of the group over the thoughts and actions of its individual members. The interdependence and impersonality of modern industrialism have increased the necessity for social control. Social progress involves also the transition from irrational to rational forms of social control and from autocratic to democratic agencies of social control.

Three stages in social control are custom, public opinion, and the law. All social institutions are agencies of social control, but those of prime importance to the student of labor problems are the state and the institution of private property. The political state is the chief bulwark of the institution of private property.

Freedom of contract implies economic liberty, as contrasted to an inherited status fixed by birth. The workers have evolved from a condition of status to one of free contract, and from a master and servant relationship to that of employer and employee. Private property is the intangible legal right to acquire and possess, to use and abuse, to inherit and bequeath various kinds of economic wealth. The right of property has been held by the courts to include that of freedom of contract.

*Laissez-faire* proposed the reduction of governmental regulations of industry to a minimum. Its early enthusiasts falsely regarded individual liberty as identical with the reduction of the functions of government. Society gradually passed from a strict nationalism to *laissez-faire* and then away from *laissez-faire*. Modern industrialism has necessitated an increase in the functions of government and a greater regulation of industry.

The functions of government may be classified as the primary one of protecting its citizens from foreign invasion and local disorder and the secondary one of regulating industry. The economic functions of government may be classified as those exercised in the interests of consumers, workers, investors, and the general public. There are now developing new social functions of government, new collective activities, and a new ideal of service.

The United States is a Federal government with a written constitution. The central government possesses only certain specified powers. Labor legislation falls largely within the province of the individual states. Hence, uniformity is well-nigh impossible, although a certain amount of experimentation may be done by progressive states.

The Federal Constitution guarantees the life, liberty, and property of its citizens against the aggressions of Congress or the individual states. Each new labor law has been forced to meet this test of constitu-

tionality. Indeed, many of them have been regarded as unconstitutional violations of freedom of contract. The police power of the state is the right to pass laws which encroach on the constitutional guarantees, when the common safety, health, and welfare of the group necessitate the sacrifice of individual liberty and property.

Some labor legislation has been regarded as class legislation because it takes note of economic differences. But it cannot be regarded as class discrimination unless it is unreasonable and serves no social purpose. Equality before the law is vastly different from economic equality. Equality before the law involves a recognition of economic differences and of inferior bargaining power.

The reading of this chapter on social and political institutions after the first chapter on modern industrialism and the changed economic environment cannot fail to show even the superficial reader that changes in our political and legal philosophy have taken place, but that they have generally lagged behind those compelling changes in our economic life. The new economic conditions which were created by the industrial revolution made it necessary to provide for the economic security and safety of the workers against new or increasing hazards of industry, such as unemployment, dependent old age, industrial accidents, sweat shops, and child labor in factories and mines. But in spite of its evident need to students of labor problems, social legislation was slow, halting, and inadequate. Moreover, numerous court decisions on such labor laws as succeeded in passing legislative chambers were frequently reactionary. The Federal and constitutional nature of our government was a very effective barrier to social legislation until the two great crises of modern times, the World War and the great economic depression. Although the control of government over industry had been gradually increasing by additional pieces of new legislation, by some broad court decisions, and by an occasional assumption of increased power by the executive, the National Industrial Recovery Act of 1933 marked a new milestone in this direction.

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### Questions for Discussion

1. What do you understand by social control?
2. Indicate some stages and agencies of social control.
3. How has the industrial revolution increased the necessity for social control?
4. Distinguish between status and freedom of contract.
5. What do you understand by private property?
6. Do you accept the social concept of private property? Why or why not?
7. What do you understand by *laissez-faire* and the national system?
8. Outline some of the increasing functions of government.
9. How does the Federal nature of our government affect labor legislation?
10. How does the constitutional character of our government affect it?
11. Enumerate some of the chief constitutional guarantees.
12. How do they affect labor legislation?
13. What do you understand by class discrimination and by equality before the law?
14. What do you understand by the police power of the state?
15. Distinguish among the legislative, the executive, and the judicial branches of government. Is this distinction easy to maintain? Illustrate from labor problems.
16. Show the gradual increase of Federal control over industry.
17. Show the gradual increase of the President's powers over industry.
18. Show the gradual socialization of Supreme Court decisions.

19. Outline events leading up to the passage of the National Industrial Recovery Act.
20. In what ways was this piece of legislation revolutionary?

**Topics for Investigation**

1. Carver's concept of a scientific morality.
2. Modern and primitive agencies of social control.
3. Theories of private property.
4. Our changing concept of property.
5. Judicial interpretation of the police power.
6. Constitutional aspects of the National Industrial Recovery Act.
7. Legal and economic aspects of the licensing power of the President.
8. Methods used in the formulation and examination of industrial codes submitted in 1933 and 1934.

# CHAPTER III

## THE BACKGROUND IN POPULATION

### IMMIGRATION AND THE SUPPLY OF LABOR

**1. Increase in Population of the United States.**—When independence was achieved, the total population of the thirteen original states numbered a scant three millions. At the present time the population of continental United States is well over 125 millions. The census figures follow:

POPULATION OF THE UNITED STATES BY DECADES			
1790	3,929,214	1870	38,558,371
1800	5,308,483	1880	50,155,783
1810	7,239,881	1890	62,947,714
1820	9,638,453	1900	75,994,575
1830	12,866,020	1910	91,972,266
1840	17,069,453	1920	105,710,620
1850	23,191,876	1930	122,775,046
1860	31,443,321		

This phenomenal increase of population has been accomplished both by immigration from abroad and by a natural increase in the native population, due to a surplus of births over deaths. In the past, the former method was very important, but recent restrictions on immigration seem to indicate that in the future the latter method will be the only important source of population growth in the United States.

Our rapid increase of population has been accompanied by territorial expansion to an area many times the size of the original settlements. However, the Pacific Ocean was finally reached and the western frontier gradually disappeared. What significance, if any, has this cessation of territorial expansion on our future population growth?

It has been shown that the population of the United States is not stationary but increasing. On the other hand, our rate of increase seems to be decreasing. The following table gives the rate of increase of our population from census to census:

RATE OF INCREASE OF THE POPULATION OF THE UNITED STATES BY DECADES			
Decade of	Percentage increase	Decade of	Percentage increase
1790-1800	30	1860-1870	23
1800-1810	37	1870-1880	30
1810-1820	33	1880-1890	25
1820-1830	34	1890-1900	21
1830-1840	33	1900-1910	21
1840-1850	36	1910-1920	15
1850-1860	35	1920-1930	16



It will be seen from this table that from the conclusion of the Revolutionary War to the outbreak of the Civil War the rate of increase of our population was fairly steady—about a one-third increase every decade.

The decade from 1860 to 1870 witnessed the first important decrease in this rate of increase, due primarily to the Civil War. Although the rate of increase of population rose shortly thereafter, it did not reach its former proportions. Moreover, our rate of increase began to decline still further from 30 per cent between 1870 and 1880 to 25 per cent between 1880 and 1890, to 21 per cent between 1890 and 1910, to 15 per cent between 1910 and 1920. Although the World War might explain some decline in our rate of increase in the decade from 1910 to 1920, it is significant that this falling rate had been evident for the past four decades and that the rate of increase rose only slightly in the following decade from 1920 to 1930. Thus in the half century from 1870 to 1920 the rate of population increase declined by one-half from 30 per cent per decade to 15 per cent; this rate was retained in the decade from 1920 to 1930. Perhaps the United States may now have a small and stable rate of population increase at about this figure.

**2. Present Composition of Our Population.**—Almost nine-tenths of the population of continental United States are Caucasians. Out of the total of 122,775,046 people reported by the census of 1930, 108,864,207 or 88.7 per cent were listed as whites.

The number of Negroes in the United States in 1930 was 11,891,143. Although most of them still lived south of the Mason and Dixon Line, the 1930 census, like that for 1920, showed a great migration of colored labor into the industrial cities of the North, especially since the World War and the postwar reduction of European immigration.

The 1930 census reported 74,954 Chinese and 138,834 Japanese, most of whom were in the Pacific Coast states; 332,397 Indians, most of whom lived on governmental reservations in the West; and 1,422,533 Mexicans, most of whom were in the border states of the great Southwest.

The 1930 census reported the following miscellaneous racial groups: 45,208 Filipinos, 3,130 Hindus, 1,860 Koreans, and 780 persons of other races.

Out of our total white population of 108,864,207, there were 95,497,800, or 87.7 per cent, native born. Foreign-born whites numbered 13,366,407, or 12.3 per cent of the total white population. Of the native-born white group, 70,136,614, or 73.5 per cent, were of native-born parents, 16,999,221, or 17.8 per cent, were of foreign parentage, and 8,361,965, or 8.7 per cent were of mixed parentage.

**3. Immigration in Relation to Population Growth.**—Past immigration to the United States cannot be construed as a net increase to our population, for large-scale immigration was accompanied by a fall in the native-

white birth rate. Indeed, it has been contended that the population of the United States would be almost as great as it now is by a natural increase of the descendants of the early white settlers, even if the United States had received no huge immigration from Europe during the past century. Although this extreme position<sup>1</sup> is very doubtful, the opposite extreme of completely ignoring the influence of foreign immigration on the native-white birth rate is equally fallacious.

A review of rates of increase of our population by foreign immigration and by a natural increase among the native born over the decades from 1840 to 1910, the chief period of immigration, shows that with few exceptions the rate of native increase has fallen when the rate of foreign immigration has gone up, and *vice versa*. Such statistics, however, need careful refinement and are capable of many different interpretations. Nevertheless, it is difficult to escape the conclusion that immigration has reduced to some extent the native-white birth rate in those states into which the immigrant tides poured. Again, it is significant that the South, which received little immigration from Europe during this same period, had a fairly rapid increase of its white population, due to a natural surplus of births over deaths.

**4. Rates of Increase of Various Groups in Our Population.**—The varying rates of natural increase among the different races and nationalities within our country is another interesting study, concerning which the most sweeping generalizations have been made by those who are ignorant of the facts or who wish to ignore them.

In the first place, there is common reference to the Indians as a dying race, in spite of the fact that their numbers today are about as great as a century ago. Of course, their relative numerical importance has declined, even though their absolute numbers have changed but little over a long period of time.

Another popular attitude is as hysterical as the first is sentimental. It views with alarm the increase in the Negro population and envisions a time, in the not very distant future, when the rising tide of color will make the United States a nation of colored, rather than white, people. A glance at the table on page 50 will show that the Negroes in our population are growing in number steadily, but not at a more rapid rate than the whites or even the native whites.

Racial prejudice has created a yellow, as well as a black, peril within our own borders. The immigration of Asiatics, however, has been forbidden. It does not seem that the small numbers of Japanese and Chinese now in the United States will assume huge proportions in the future.

In the last place, it is the common assertion that the native-white birth rate is falling, or is low, in comparison with that of European

<sup>1</sup> WALKER, F., "Discussions in Economics and Statistics," pp. 215-225.

immigrants. Thus, in 1910, in the state of Massachusetts the native birth rate was 14.8 per thousand, while that of the foreign born was 49.5 per thousand, or over twice as great. At the same time and place the death rates of the native and foreign born groups showed considerably less difference. Consequently, it was feared that the children of the more prolific immigrants from Southern Europe would eventually displace the descendants of the Pilgrim Fathers, who had migrated centuries before from old England to New England. Indeed, some extremists wrote of the possibility of race suicide among some of the "finest strains" of our old, native, American stock.

It is true that for some periods and places the birth rate among foreign-born groups has been greater than that among native-born whites. On the other hand, their death rate also has frequently been higher, although rarely proportionately so. But the chief point to be stressed is that the problem is more economic than racial in character. Population generally increases more rapidly in the lower income groups than in the higher economic strata. The so-called "social pyramid" is pictured on page 146 and discussed in Chap. VI. It is sufficient at this point to observe that most immigrants came to this country as unskilled laborers, falling into the lower income groups, whose birth rates and death rates were higher, as their standards of living were lower, than those of the more fortunate economic groups pictured toward the apex of the social pyramid.

Although recent restrictions placed on European immigration have made this problem one of historic rather than current interest, it must be pointed out that there is little objective proof or scientific evidence of racial inferiority or superiority. Even if it should be conceded that one group has contributed more than another to civilization, it cannot be denied that institutions are part of our social heredity, which is acquired, rather than of our biological heredity, which is innate.

Recent changes in the composition of the population of continental United States are indicated in the table shown on page 50, based on the last three censuses. Although birth rates and death rates are not given, and although no distinction is made between two or more generations of native-white stock, the total increases and the general rates of increase of the various groups now in the United States are evident.

It would seem that there is little danger, for the country as a whole, of the dying out of our native-white stock, if that term is interpreted rather broadly. From 1910 to 1920, and again from 1920 to 1930, the native-white group of native parentage increased at a disproportionately rapid rate, *i.e.*, at a rate higher than that for the population as a whole. Although not so from 1910 to 1920, the native-white group of native parentage increased at a more rapid rate than the native-white group of foreign or mixed parentage from 1920 to 1930 and from 1910 to 1930.

The increase of foreign-born whites in these two decades was insignificant, owing to the reduction of European immigration. On the other hand, the increase of Mexicans was very rapid.

POPULATION OF THE CONTINENTAL UNITED STATES, BY RACE AND NATIVITY, WITH PERCENTAGE OF INCREASE, 1910 TO 1930<sup>1</sup>

Race	Number in thousands (last 000 omitted)			Percentage increase	
	1910	1920	1930	Decade 1910- 1920	Decade 1920- 1930
Total population.....	91,972	105,710	122,775	15.0	16.1
Total white.....	81,350	94,120	108,864	16.7	15.7
Native parentage.....	49,489	58,421	70,137	18.0	20.0
Foreign or mixed.....	18,735	22,435	25,361	19.7	13.0
Foreign born.....	13,126	13,264	13,366	1.0	0.8
Total colored.....	10,622	11,590	13,911	9.1	20.0
Negro.....	9,828	10,463	11,891	6.5	13.6
Mexicans.....	381	701	1,423	84.0	103.1
Indians.....	266	244	332	-12.1	36.0
Japanese.....	72	111	139	54.0	25.0
Chinese.....	72	61	75	-15.0	21.0
Filipino.....	.....	6	45		
Other.....	.....	4	6		

<sup>1</sup> "Recent Social Trends," vol. I, p. 556.

From 1910 to 1930 the Negro population of the United States increased by two millions, but its rate of increase was disproportionately slow, *i.e.*, less rapid than that for the population as a whole. Although the colored birth rate has been fairly high, the death rate also has been very high, owing to the poor health facilities of this group, whose economic status in general has been less fortunate than that of most white groups.

**5. Changes in Age Groups and Size of Family.**—The composition of our population is changing with respect to age groups as well as racial elements. As the nation has become older, and as the healing arts have improved, the median age of our population has risen from 16.7 years in 1820 to 26.4 years in 1930,<sup>1</sup> or by almost ten years. In other words, the average age has been definitely increased and the life-expectancy rate has been appreciably advanced, even though the life span itself has not been perceptibly prolonged. In short, life has been saved but not projected beyond certain fairly definite biological limits.

Although the birth rate has declined, the death rate has declined still more rapidly. In other words, population has increased in spite

<sup>1</sup> "Recent Social Trends," vol. I, p. 26.

of a falling birth rate. Although the population of continental United States in 1930 was over five times as great as in 1850, the average size of the American family declined from 5.6 in 1850 to 4.1 in 1930, or by one or two members.

Our population today includes a greater portion of those in the higher age groups than ever before. This raises numerous interesting problems for the student of labor problems and social economics. There is the possibility of a longer period of schooling, of a longer working life, and of a longer period of leisure after retirement. There is also the necessity of reducing the pressure and speed of modern methods of production, as well as the need of formulating programs of social insurance. Industry must do its part in human conservation by providing improved working conditions, increased leisure time for recreation, and increased economic security against physical, economic, and social hazards.

**6. Geographical Distribution of Our Population.**—As compared with Asia and Europe, America is still sparsely populated. In 1930, the two continents of North and South America combined had slightly less than a quarter of the population of Asia, which was estimated at almost a billion. At that time the population of the United States was about one-quarter that of Europe, which was about a half billion, although the two areas are not dissimilar in size. The average density of population, *i.e.*, average number of inhabitants per square mile, in this country is but a fraction of that in Belgium, Italy, England, Germany, and numerous other European countries. This picture should be kept in mind in our subsequent discussions of American prosperity.

The average density of population is as misleading as the average length of life, particularly in a country as large and varied as the United States. Portions of our great West are still sparsely settled, whereas some sections of the eastern industrial states, where the immigrant tides have stopped, are as congested as the older centers of population in Europe. The census for 1930 gave New York City a population of almost seven millions and the entire metropolitan area about it a population of about eleven millions. In this small area, less than that of Delaware or Rhode Island, reside almost 10 per cent of the entire population of the whole United States. On the other hand, the 1930 census showed an average density of population of less than one person per square mile for the entire state of Nevada.

During the early periods of its history, America was chiefly an agricultural nation and the rural community was most typical. But the growth of commerce and industry within the United States has stimulated the growth of cities and the urbanization of a large portion of our population. At the present time more than half our people live in towns or cities of 2,500 or more.

The immigrant has gone into industry, rather than into agriculture, and into the cities, rather than into the country. Before the imposition of our present restrictions, European immigrants settled by the millions in our Northeastern and North Central states. In some industrial and mining communities, the foreign born outnumbered the native born, and in many places the foreign born and the native born of foreign parentage far outnumbered those of native parentage.

In New York City, the chief port of entry for immigrants, the census of 1920 showed almost two million foreign-born whites and the census of 1930 over two million foreign-born whites. Out of a total population of about seven millions in 1930 for the city of New York, foreign-born whites and native whites of foreign or mixed parentage constituted over five millions.

The following table shows the geographical distribution of the foreign-born white population of the United States in 1920 and 1930. The student cannot fail to note the high percentages in the Middle Atlantic and North Central states and the low percentages in the South.

GEOGRAPHICAL DISTRIBUTION OF WHITE FOREIGN-BORN POPULATION

Geographical division	Census of 1920		Census of 1930	
	Number	Percentage	Number	Percentage
New England.....	1,870,654	13	1,834,310	14
Middle Atlantic.....	4,912,575	36	5,269,042	39
South Atlantic.....	315,920	02	304,278	02
North Central.....	4,595,240	33	4,283,201	32
South Central.....	531,272	04	227,897	02
Western.....	1,487,093	12	1,447,679	11
Total.....	13,712,754	100	13,366,407	100

**7. Population Movements.**—As water seeks its own level, so population tends to flow from densely peopled countries to sparsely settled ones, and from barren regions to richer and more fertile ones. If a given state of the arts of production and similar institutions protecting life and property are assumed, national prosperity is primarily a ratio of resources to people. Hence the pressure of population from densely peopled areas, especially those whose natural resources are poor or exhausted, to the richer and less densely populated areas of the world.

Early migrations took the form of movements of entire peoples from one place to another. Illustrations are the wanderings of nomadic tribes of Western Asia, whose pastoral life necessitated frequent migrations in search of better pasture, and the barbarian invasions, which swept successively up the Danube River valley into the Roman Empire. This

process was slow and halting, for it was marked by numerous conflicts and frequent periods of assimilation.

Although later migrations have been those of individuals and their families, the net result on population has sometimes been equally momentous. In the middle of the past century the deserted villages of Ireland gave mute testimony to foreign emigration, chiefly to America. In later years of that century, certain towns in southern Italy sent a majority of their sons to the United States.

During the century between 1820, the first year for which reliable statistics are available, and the period of the World War, when immigration fell off, gross immigration into the United States amounted to between thirty and thirty-five millions; these figures roughly correspond to the total population of our country at the time of the Civil War. This striking comparison shows how important a role immigration has played in the making of the United States.

Although modern immigration has been peaceful, rather than warlike, it has caused some international friction. The United States and some of the self-governing colonies of Great Britain have sought to protect their large but sparsely settled areas against immigration by hordes of Asiatics, and even against the teeming population of other European countries.

**8. Waves of Immigration.**—From 1820 to 1830, the annual number of immigrants doubled, increasing from less than ten thousand a year to over twenty thousand a year. In the early forties the annual number of immigrants passed the hundred thousand mark. Although these numbers seem small in comparison with more recent ones, so was the population of the United States at that time. Hence from the very beginning of our records European immigration played a relatively important part in making the population of the United States.

Important dates in the early history of immigration were 1846 and 1848. The former was the year of the failure of the potato crop in Ireland and the latter was the period of revolutions in Germany and Central Europe. Both resulted in an increased immigration to the United States, until checked by industrial depression in the late fifties and the outbreak of the Civil War in 1861.

After the Civil War and the depression of 1873, the volume of immigration rose even higher than ever before, but it receded somewhat in the eighties and nineties, especially during and after the depression years. With the return of prosperity at the turn of the century, immigration into the United States increased to unprecedented proportions. The annual number for the decade before 1914 was generally well over the million mark.

The outbreak of the World War resulted in a precipitous decline in immigration to the United States, as the young men of various European

countries were called to the colors. But immediately after the cessation of hostilities and the demobilization of the troops, immigration to America again jumped. It might soon have reached or surpassed former levels, had it not been checked by legislation which drastically restricted immigration into this country.

During the great economic depression of 1929 to 1933, immigration to the United States fell to an insignificant amount and emigration from the United States increased to a considerable figure. In 1932 and 1933, emigration from the United States actually surpassed immigration to it.

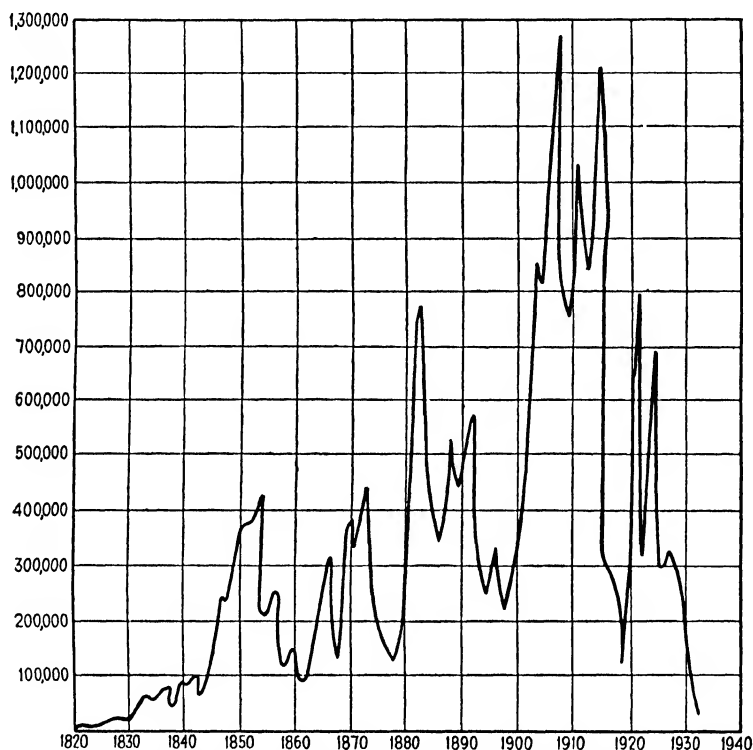


CHART 2.—Rise and fall of immigrant tides—gross immigration figures for each year.

Economic and political conditions in the United States and Europe have influenced immigration into this country and emigration from Europe. Our periods of depression, as well as wars, have been characterized by a sharp decline in immigration. The ups and downs of the business cycle are roughly followed by the curve of immigration, unless influenced by some other factors, such as war or legislative restrictions.

Chart 2 above pictures the rise and fall of the tides of immigration into the United States from 1820 to 1932. Although showing cycles



roughly corresponding to depressions and wars, the secular or long-run trend was irregularly upward during the entire century from 1820 to 1914. The postwar period shows an immediate upward tendency toward former levels, until checked by recent restrictions, which have almost eliminated European immigration.

The following table gives the annual number of immigrants to the United States for each census year from 1820 to 1930:

TOTAL IMMIGRANT ALIENS ADMITTED TO THE UNITED STATES FROM ALL COUNTRIES  
FOR EACH CENSUS YEAR FROM 1820 TO 1930

1820	8,385	1880	457,257
1830	23,322	1890	455,302
1840	84,066	1900	448,572
1850	369,980	1910	1,041,570
1860	153,640	1920	430,001
1870	387,203	1930	241,700

The following table gives the annual number of immigrants and the annual net increase to our population therefrom for each year from 1920 to 1933:

IMMIGRATION TO THE UNITED STATES AND NET INCREASE IN OUR POPULATION BY  
ARRIVAL AND DEPARTURE OF ALIENS, 1920 TO 1933

Year	Immigration	Net increase	Year	Immigration	Net increase
1920	430,001	193,514	1927	335,175	284,493
1921	805,228	552,132	1928	307,255	226,275
1922	309,556	87,121	1929	279,678	226,829
1923	522,919	472,820	1930	241,700	173,789
1924	706,896	662,557	1931	97,139	- 10,237
1925	294,314	232,945	1932	35,576	-112,786
1926	304,488	268,351	1933	23,068	- 93,074

Chart 3 (page 56) gives the qualitative, as well as the quantitative, aspect of this problem. The changes in the sources of immigration may be seen by tracing the rise and fall of the three lines, one representing immigration from Western and Northern Europe, another line immigration from Southern and Eastern Europe, and the third that from Canada and Mexico.

**9. Periods of Immigration.**—The history of immigration may be divided into different periods according to its volume and sources.

First was the colonial period. It continued some years after the American Revolution, for the year 1776 marked no such turning point in the social and economic history of America as it did in its political

history. The War of 1812 may be accepted as a more significant date for the beginning of American economic independence.

The second period of American immigration extended from the early years of the nineteenth century until the time of the Civil War. It includes such dates as 1846 and 1848. Immigrants were chiefly British, Irish, German, and Scandinavian.

The third period of immigration extended from the Civil War to 1882; this date was rather important for several reasons. Immigration figures for that year reached a new maximum which was not passed until 1903. Again, the year 1882 serves well to date qualitative as well as quantitative aspects of immigration. After 1882, German and Scandinavian immigration almost ceased, whereas immigration from Russia, Italy, and the

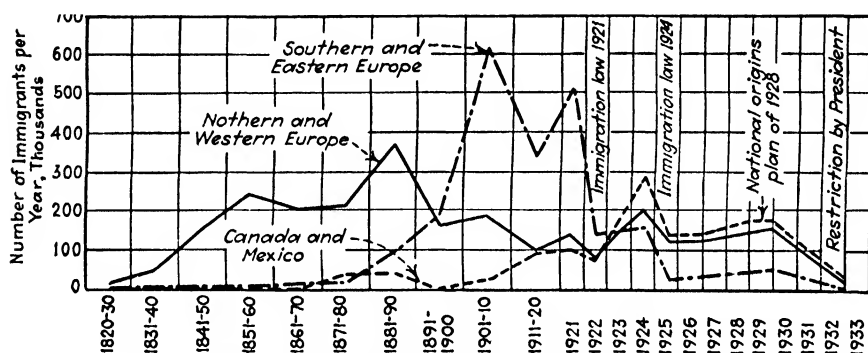


CHART 3.—Changing character of our immigration.

former kingdom of Austria-Hungary became of paramount importance. Finally, the first Chinese Exclusion Act, as well as the first important Federal law for the regulation of European immigration, was passed in 1882.

The fourth period of immigration extended from 1882 to the World War. It represented large-scale immigration from Southeastern Europe. Again, it was a period of regulated immigration instead of free immigration.

The fifth period of immigration extended from the World War to the great economic depression of 1929 to 1933. It was one of restriction rather than of regulation. It was characterized by a great reduction of immigration, due first to the World War and then to the postwar restrictions imposed by the laws of 1921 and 1924 and the national-origins plan of 1928.

The economic depression of 1929 to 1933 inaugurated a sixth period which can be characterized as one of prohibition, or even cessation, rather than one of regulation, or even restriction of immigration. Because of our pressing problem of unemployment, President Hoover, in 1931,

placed a ban on European immigration. Again, economic conditions in the United States were such that many European immigrants decided to return to their native lands. For the first time in our history, annual emigration figures exceeded those of immigration by about 100,000 in 1932 and 1933. This situation may be only temporary and the United States may return to a period of restricted immigration rather than one of legal prohibition or natural cessation. It is hardly likely that emigration, rather than immigration, will be the future condition of the United States.

**10. Early Immigrants to America.**—In the making of early Americans and our fundamental institutions, English colonists played a preeminent part. Before the Revolutionary War and for several generations thereafter, British settlers led in numbers and in relative proportions.

Although the colonial settlers were principally British, there was a considerable sprinkling of other nationalities, especially in the middle colonies. At one time it was feared that the enormous immigration of Germans into Pennsylvania from the Palatine provinces would drive a wedge through the English colonies at the same time that they were being closed in upon by the French from the north, the west, and the south.

Although English gentry were abundantly represented among the American colonists, the lower classes of English society also were present in large numbers. Indentured servants, convicts, and the victims of London kidnapers were sent to America. Dr. Samuel Johnson termed Americans "a race of convicts" who "ought to be content with anything we allow them short of hanging." The subsequent history of the American people has made ridiculous this caustic comment of Dr. Johnson, but it should make Americans of today hesitate about heaping similar invectives upon the heads of our more recent arrivals.

The Irish, Welsh, and Scotch, as well as the English, played an important part in the settlement of America. In the generation before the Civil War, Ireland occupied a unique position, for Irish immigrants made up from one-third to two-fifths of our total immigration. The population of Ireland during these years was reduced by emigration and famine to one-half its original numbers.

The German element also played an important part in the immigration to America during the middle of the last century. The total volume of German immigration approximated five million. It was concentrated chiefly in certain communities of Pennsylvania, Missouri, Illinois, and Wisconsin. There are interesting differences in the social heredities of the German and Irish immigrants, as well as in the occupations into which they went.

Scandinavian immigration also played an important part in our national life. At one time there were over one million people in the

United States who had been born in Norway, Sweden, or Denmark. The Scandinavian immigration settled chiefly in the Northwest, in such states as Minnesota, Wisconsin, Iowa, and the Dakotas.

**11. Changes in the Sources of our Immigration.**—The decided shift in the sources of American immigration from the Civil War to the eve of the World War can be seen in the following table. It shows that the percentages of immigration from the northwestern and southwestern countries of Europe were reversed.

PERCENTAGE OF TOTAL IMMIGRATION COMING FROM SPECIFIED COUNTRIES<sup>1</sup>  
(By Decades from 1861 to 1910)

Country	Years				
	1861 to 1870	1871 to 1880	1881 to 1890	1891 to 1900	1901 to 1910
Austria-Hungary.....	0.33	2.6	6.7	16	24.4
German Empire.....	35.00	25.5	28.0	14	3.9
Italy, Sicily, Sardinia.....	0.51	2.0	5.9	18	23.3
Russian Empire, Finland.....	0.2	1.9	4.4	14	18.2
United Kingdom.....	38.0				
England.....		15.6	12.0	6	4.4
Ireland.....		15.5	12.0	10	3.9

<sup>1</sup> FAIRCHILD, H. P., "Immigration," p. 135.

A line drawn diagonally across Europe from the northwest to the southeast separates roughly two very different racial and cultural areas, which correspond somewhat to those of the older and the later sources of our immigration. The northwestern area includes chiefly the Nordic groups of Teutons and Anglo-Saxons, and the southeastern area includes chiefly the Mediterranean and Danubian groups. With the exception of the Irish who migrated in large numbers to America, early immigrants from northwestern Europe were chiefly Protestant, whereas later immigrants from southeastern Europe were mostly Catholic. Again, illiteracy was lower in the former than in the latter groups. Finally, more political progress toward self-government and constitutionalism has been made in the Anglo-Saxon and Teutonic countries of Europe than in the Mediterranean and Danubian areas.

As indicated previously, objective scientific evidence of racial superiority and inferiority is lacking. Although the attainments of some groups have been greater than those of other less fortunate ones, such differences in achievements are due more to differences in physical environment, in social environment, or in social heredity, than to biologic differences in physical heredity. But whether inferior or superior, later immigrants from Southeastern Europe were different from early immi-

grants from Northwestern Europe, whose background was more similar to that of the early settlers of this country. Hence the later immigrants to the United States were more difficult to assimilate than the earlier ones had been.

It has sometimes been said that the causes of early immigration to America were primarily religious persecution and political oppression, whereas those of our later immigration were chiefly economic. Although this sweeping generalization contains an element of truth, all these causal factors have operated to a greater or lesser degree in all periods of American development, including early colonization and later immigration.

**12. Later Immigrants to the United States.**—Although often grouped together as Mediterraneans and Danubians, to distinguish them from Nordics, the Southeastern European immigrants included such divergent racial groups as the Latins, Magyars, and Slavs. Latin immigrants are divisible into Italians, north and south, Roumanians, and perhaps the Greeks. The Slavs can be classified into numerous subdivisions, some of which will be given later.

Religious contrasts among later immigrants from Southeastern Europe were almost as great as their racial differences. Although most of them were Christians, the number of Jews rose both absolutely and relatively. The Christian element was preponderantly Catholic, rather than Protestant, but it was split between the Roman and Greek churches.

European nations, which furnished the greatest number of immigrants to the United States from the opening of the present century to the World War, were Italy, Austria-Hungary, and Russia.

Before the World War, Italy was sending annually to the United States between a quarter and a half million immigrants. Almost an entire village was sometimes transported. The greater portion of this Italian immigration was Sicilian or south Italian.

The dual monarchy of Austria-Hungary was a polyglot empire, which the World War split apart by the principle of self-determination. This former kingdom of Austria-Hungary included numerous racial and national groups, most of whom contributed conspicuously to American immigration between 1882 and 1914.

Several million Slavs immigrated to the United States before the imposition of the present restrictions. Some came from Russia and the Balkans, but most of them came from the former kingdom of Austria-Hungary. These Slavic immigrants included Poles, Bohemians, Slovaks, Slovenes, Croatians, Russians, Bulgarians, Serbians, and numerous other divergent groups.

Later immigrants to the United States included thousands of Hungarians or Magyars, who were partly Mongol in origin and descended from the early Asiatic invaders of the Danube Valley. Of similar racial

origin were the Finns, a few of whom were driven to America by the despotism of imperial Russia.

Most of the Russian immigrants to the United States were Hebrews, who migrated because of religious persecution at home and economic opportunities in the United States. In the years before the World War, hundreds of thousands of Russian Jews found in America the "Promised Land" of peace and plenty.

Immigration to the United States from the Balkans included chiefly Greeks, Rumanians, Bulgarians, and Serbians. Finally, Turks, Syrians, and Armenians began coming to our shores. Thus immigration to America before the World War had spread not only from Northwestern to Southeastern Europe, but also from Southeastern Europe to Western Asia.

**13. Occupational Distribution of Later Immigrants.**—Most immigrants from Southeastern Europe settled in our congested industrial and commercial centers. Each large city still has its "little Italy" and its "little Hungary."

Jewish immigrants have shown a peculiarly strong tendency to concentrate in cities, of which the most conspicuous illustration is the metropolitan area of New York. They have been especially prevalent in commercial and mercantile pursuits. The needle trades constitute one of the few branches of manufacturing into which they have gone on a large scale. Before the unionization of labor in the clothing industry, Jewish immigrants were victimized by the evils of the sweat shop and home work in the crowded tenements of New York and other large cities. Sporadic attempts have been made to settle some Hebrew immigrants on the land in agricultural pursuits, but these efforts have met with only modest success.

The industrial distribution of other later immigrants is equally interesting. Thus the Italians have gone in great numbers into construction work and the building trades, while the Hungarians and many Slavic groups have poured into coal-mining towns of Pennsylvania. Some occupations are still stigmatized as "dago jobs" and "hunkie labor." However, any sweeping generalization is false beyond the general observation that most immigrants have gone into the ranks of unskilled labor. As the United States became more industrial and less agricultural, later immigrants went naturally into industry as the earlier immigrants had gone naturally into agriculture.

**14. Industrial Development and Immigration.**—The industrial development of the United States from the Civil War to the World War was accompanied by a large and increasing immigration from Europe. The introduction of machinery and the minute division of labor which accompanied it created a demand for unskilled labor which was met by this European immigration. But the reverse relationship also is true, *viz.*,

that immigration made possible the greater utilization of machinery and division of labor. There is, however, a functional relationship between our great industrial development and our large immigration from Europe.

Before the World War, European immigration largely supplied the great labor reserve for the basic industries of the United States. This was not an unmixed blessing, for in times of economic depression a large proportion of immigrants have been forced out of work. This lowest paid group often suffered most from unemployment. Large immigrant labor reserves also encouraged seasonal occupations and a temporary economic expansion which often accelerated the business cycle.

**15. Economic Effects of Immigration.**—Unskilled immigrant labor gradually permeated all our basic industries, and the native American worker was displaced by more recent arrivals from Europe. In mining and numerous other occupations a gradual change took place in the nationality of the workers employed, as one racial group gave way to another, and then to still another. Newly arrived immigrants with still lower standards of living than their predecessors tended to displace them in a given industry. Thus a kind of Gresham's law seems to have operated with immigrant labor. Just as cheap money tends to drive better money out of circulation, so cheap labor tends to displace labor with a higher standard of living. This industrial competition between the immigrant and the native worker, and between the older immigrant and the newer immigrant, was very evident before the recent restriction on immigration.

The problem of low wages and low standards of living was most acute among immigrant groups from Southern Europe. Because of their low standards of living they could accept a wage which was higher than that of their native land, but which was too small to maintain an American family in decency. This was reflected in miserable tenements, housing congestion, great infant mortality, and child labor.

Working conditions of the immigrants were on a plane with their living conditions. Not only would they accept a wage which was regarded by American workers as woefully inadequate, but also they would accept employment under unfavorable conditions. Extreme ignorance or stolid indifference made the immigrant worker impervious to the hazards of modern industry, as represented by dangerous trades and unhealthy working conditions.

Differences in race and language made it difficult for later immigrants from Southeastern Europe to organize and to develop effective collective bargaining. Not only was the immigrant susceptible of the most extreme forms of industrial exploitation, but also he was used to break down the collective bargaining of organized groups of American workers.

Professor Fairchild<sup>1</sup> maintained that the peak of real wages for

<sup>1</sup> FAIRCHILD, H. P., "Immigration."

unskilled workers in the United States was reached about 1890 or 1892, after which it steadily receded until the time of the World War. He further contended that the enormous European immigration to America during this period was one factor in this depression of the real wages of our unskilled labor.

In any event, it was within the ranks of unskilled labor that the wage competition of the immigrant was felt. This depression of wages was accomplished in two ways: first, by a mere increase in the relative supply of unskilled labor due to immigration, and, second, by the fact that low standards of living and low wages were a part of the social heredity of the newly arrived immigrant workers.

Immigration is a movement of population from low-standard areas to high-standard areas. The Malthusian tendency<sup>1</sup> soon eliminates any temporary relief afforded by emigration in the old countries, but immigration may reduce standards of living in the new country. Hence it has been contended that immigration has reduced real wages and standards of living of unskilled labor in the United States without appreciably reducing the pressure of population at home.

It does not follow, however, that immigration has reduced the real wages and standards of living of all economic groups within the United States. It has sometimes been alleged that the American worker has been forced out of the unskilled labor group, in which this competition existed, into a higher economic group. He has sometimes been kicked upstairs, rather than downstairs.

Economists are not agreed as to what extent this forcing-up process has taken place, and many are inclined to believe that immigration has depressed not merely the wages of unskilled labor, but also the wages of labor in general. Although standards of living may not have declined absolutely, they may not be so high today as they would have been if European immigration had been restricted.

The pressure of immigration on standards of living has been reflected also in the lowered birth rate of native-born Americans. In a choice between the customary standard of living and the size of the family, the American worker has generally preferred to maintain the former, even at the expense of the latter.

**16. Social Effects of European Immigration.**—From a sociological point of view America has been a great melting pot of different races and civilizations. The introduction of different social heredities should be beneficial, for provincialism must decrease as we become the heir to the cultures of the world. A word of caution, however, is necessary. If immigration were unrestricted, the United States might become heir to the poorer, rather than to the better, social heredities of Europe. More-

<sup>1</sup> The tendency of population to increase more rapidly than the food supply, described by Thomas Malthus in his "Essay on Population."



over, if the process were too rapid, America might become Europeanized rather than the immigrant Americanized.

True Americanism does not require the possession of Mayflower ancestry, but it does necessitate the acquisition of certain civic and social ideals which we are pleased to term "American." The grafting of the best of America's social heredity on the new folk from Europe cannot be done by our characteristically large-scale methods. However, the public schools of our large cities have done a wonderful work among the children of our immigrants. But sometimes the transition is so rapid and under such unfortunate social conditions that the second generation fails to acquire the best traditions of the new American civilization, although it easily sloughs off the restraints of Old World culture, and indeed of parental authority.

Immigrants often tend to resist actively or passively the process of Americanization. Assimilation has been difficult because of the tendency of each immigrant group to huddle together with others of the same nationality in some congested section of our large industrial cities. Moreover, their miserable living conditions have been a constant threat to American standards of living.

In addition to its effects on standards of living, immigration has reflected itself in a higher rate of illiteracy and in a greater proportion of social debtors. Illiteracy is higher among both European immigrants and American Negroes than it is among the native-white group. In poverty and dependency rates, also, the two former groups are decidedly higher than the latter.

The alleged criminality of the immigrant has been much discussed. A refinement of such statistics, however, shows that the criminal rate of immigrant males within the so-called "criminal ages" has not been in excess of that of the total male population between the same ages. The children of our immigrants, however, show a proportion of criminality which is far in excess of that of the general population. These findings would seem to show that the criminal tendency lies not so much in the physical, nor even in the social, heredity of the immigrant as in the slum environment of our American cities.

There have been about three times as many men as women among our recent immigrants, most of whom have come to America in response to the demand for unskilled labor in industry. Any great numerical disproportion between the sexes is unfortunate. The presence of male lodgers, as well as the existence of housing congestion, makes difficult a wholesome family life among our immigrants.

Finally, a word should be said of the political effects of immigration. Municipal corruption and the boss system have been rendered easy by the existence of a large number of ignorant immigrants in each large city. The professional politician knows the strength of this foreign vote.

The immigrant voter is easily coerced or cajoled to "vote right" by the local "ward heeler." The latter can withhold certain favors and petty patronage which the immigrant desires. In the absence of the ability to visualize abstract principles of government, the foreign-born citizen has often given his allegiance to some friendly individual whom he knows personally. In this respect, however, he is no different from numerous other large groups of ignorant city residents, native and foreign, as well as white and colored.

**17. Points of View toward Immigration.**—Several points of view toward immigration persist. Each reflects chiefly one's vested interests or social background, rather than scientific objectivity. In the first place, there is a tremendous difference of opinion as to the relative desirability of different groups of immigrants. These divergent points of view often reflect merely the biases of different individuals, rather than a statistical measurement of the relative contribution of different immigrant groups to America's welfare or to America's maladjustments. Thus the older American immigrants or their descendants sometimes speak disparagingly of more recent arrivals to the United States. Students of social science, however, know that such sweeping generalizations are often false or unwarranted. Again, democracy itself is threatened as much by the snobbishness of the native groups as by the clannishness of the immigrant groups.

In the second place, there is considerable diversity of opinion as to the desirability of any large immigration, irrespective of its racial composition. Organized labor has consistently opposed the competition of the European immigrants with our native workers. Therefore, trade unionism has sought to limit immigration into the United States. On the other hand, capitalists and large employers of labor have sought to facilitate European immigration into this country, in order to provide a large labor reserve of tractable workers.

In the third place is what is known as the "sentimental" point of view, which regards America as the haven of refuge for all oppressed individuals. The limitation of immigration is viewed as inconsistent with an assumed world mission of America. The student of social science should not accept the vested-interest argument of either labor or capital. Nor can he accept naive idealism in lieu of a sober consideration of the effects of unrestricted immigration.

**18. Regulation of Immigration.**—Popular agitation for the regulation of immigration goes as far back as the "Native American" and "Know Nothing" parties which existed even before the Civil War. But the first important law for the regulation of immigration was passed in 1875. It provided for the exclusion of criminals and immoral women.

In 1882, a fairly comprehensive law was passed for the general regulation of immigration. Hence this date serves as a convenient point to

distinguish not only between the early European immigration and the later European immigration, but also between the period of free immigration and that of regulated immigration.

The act of 1882 was followed by several later statutes designed to exclude foreign contract labor. Although some of this legislation concerning immigration incorporates restriction rather than mere regulation, it may be said that the chief aim of legislation from the Civil War to the World War was that of regulation rather than the restriction of immigration.

Only the following groups were actually excluded: contract labor, anarchists, immoral women, criminals (except for political offenses not recognized by the laws of the United States), paupers and those likely to become public charges, mental defectives, and those with infectious diseases, such as trachoma and tuberculosis.

**19. Types of Regulation.**—It has been said that there are four chief protective purposes<sup>1</sup> which are served by immigration regulations. The first of these is the social and political protection of the general community. Hence the United States has prohibited the landing of prostitutes, criminals, professional beggars, polygamists, and anarchists.

A second kind of protection is that of the public health. Hence, Congress has passed legislation designed to keep out immigrants suffering from contagious diseases and especially those having tuberculosis.

A third type of exclusion is that for the benefit of the taxpayer in particular, as well as that of the general community. Hence Congress has excluded individuals likely to become public charges, particularly lunatics, idiots, and epileptics. The imposition of a head tax on all immigrants best illustrates this type of regulation designed to exclude those apt to become public charges. This head tax, first imposed in 1882, was originally 50 cents, but it was gradually raised, and in 1917 increased to \$8.

The fourth type of regulation is for the purpose of protecting American labor. It may be regarded as a kind of tariff on imported labor, comparable in some respects with the American protective tariff on imported goods. Manufacturers desire a tariff against cheap European goods, but American laborers desire similar protection against cheap European labor. This type of legislation approximates the restriction, rather than the regulation, of immigration. It is of great importance to the student of labor problems.

**20. Trend from Regulation to Restriction of Immigration.**—An act of 1864 which encouraged immigration was repealed in 1868; this date marks the beginning of a new negative attitude toward immigration. Before its repeal individual employers and organized associations were

<sup>1</sup> COMMONS, J. R., and J. B. ANDREWS, "Principles of Labor Legislation," rev. ed., pp. 70-72, 1927.

engaged in recruiting European workers for immigration to the United States.

In 1885, this inducement of immigration was formally forbidden by a statute commonly known as the Contract Labor Law of 1885. It forbade the assistance or encouragement of immigrants coming here under contract to work as unskilled laborers. This piece of legislation was the result of the efforts of the Knights of Labor and early American trade unionists.

Under the Act of 1891 the United States government made it even more difficult for an immigrant who had previously obtained work to enter this country. The General Immigration Act of 1917 still further broadened the scope of the term "contract labor" as a restriction on immigration.

Steamship companies had formerly encouraged immigration because of the large profits of steerage transportation. They were later compelled to restrict their advertising and their wholesale solicitation of prospective immigrants to the United States. They were ultimately required to return at their own expense those immigrants who failed to pass admission tests at Ellis Island.

The period of the World War marked the gradual transition from a period of regulated immigration to that of restricted immigration, just as a generation or two before that time this country had passed from free immigration to regulated immigration. Public opinion in the United States gradually began to demand more than the mere regulation of immigration. Labor organizations in particular began to agitate for the restriction of immigration.

**21. Literacy Test and Other Early Plans for the Restriction of Immigration.**—One proposed plan for the restriction of immigration was the imposition of a large head tax or the insistence on the possession of a substantial sum of money as a requirement for admission. But even the increased head tax came to be regarded as entirely inadequate, and other proposals were made for the restriction of immigration.

Another popular plan was the literacy test, which required that each applicant for admission to this country be able to read and write some language, not necessarily English. Such a bill had passed Congress on several occasions, but it had been vetoed successively by Presidents Cleveland, Taft, and Wilson. Although President Wilson had vetoed a bill restricting immigration by the literacy test in 1915, and again in 1917, such a law was finally passed over his veto in 1917.

The literacy test has been defended both as a measure of regulation and as one of restriction. Not only would it decrease the number of immigrants, but also it would assure a better type of immigrant by the elimination of illiterates. On the other hand, critics of the literacy test, as a method of regulating immigration, point out in reply that the ability

to read and write does not necessarily imply good citizenship. It is an accurate measure neither of individual character nor of biologic fitness.

Advocates of the literacy test reply in rebuttal that it is easy of application. Even if not the best method of selection, it is one of the most practical. Again, many of its advocates are more interested in the quantitative aspects of immigration than in its qualitative aspects. A reduction of numbers, rather than an improvement of quality, has been their chief desire. The aim of such legislation has been the restriction, rather than the regulation, of immigration.

Immigration from Europe practically ceased during the World War, but with the conclusion of peace the problem reappeared in a still more acute form. The literacy test seemed inadequate to keep out the post-war tide of immigration which threatened this country. Enormous numbers of emigrants from all lands sought to come to the prosperous United States to forget the ravages of war and to escape excessive burdens of taxation.

On the other hand, the World War made this country conscious of the difficulty, as well as the duty, of Americanizing foreign elements within its population. It was felt that immigration should be restricted still further. Indeed, it was proposed in Congress that all immigration be suspended for a year or two.

**22. Quota Restrictions of 1921.**—A law was finally passed in 1921 which permitted European immigration, but which definitely restricted the amount. The annual immigration of each nationality was limited to 3 per cent of the number of foreign-born residents of that nationality living within the United States, as revealed by the census of 1910. Although President Wilson had refused to sign such a bill, President Harding did so shortly after his inauguration.

Because of this new law, which rigidly restricted immigration, the number of immigrants fell from 805,228 in 1921 to 309,556 in 1922. Its effect was to check immediately the threatened tide of emigration from war-stricken Europe to the United States. Although the law of 1921 was passed for the duration of only one year, it was subsequently extended for two more years, *i.e.*, until June 30, 1924. Meanwhile immigration figures had again increased.

**23. Quota Restrictions of 1924.**—In 1924 no disposition was shown to let down the immigration bars which had recently been erected, but rather to raise them to even higher levels. Immigration was further restricted by reducing the quotas from 3 to 2 per cent. Moreover, it was provided that these quotas should be based on the census of 1890, rather than on that of 1910, or on a still more recent census. The new plan favored the Nordic countries of Europe rather than the Mediterranean lands. If the quotas had continued to be based on the 1910 census, however, the reverse would have been the case.

The immigration restrictions of 1924 reduced the amount of immigration and radically changed its character. Only 160,000 to 170,000 new alien immigrants were permitted to come to this country annually from Europe. Of this number about 80 per cent were from Northwestern Europe instead of Southeastern Europe, as had been the case before the World War.

Not only did the character of European immigration change, but the total amount of European immigration lost its prior position of paramount importance. Quota exemptions in the law of 1924 resulted in a decided relative increase and a slight absolute increase in our immigration from other countries of the Americas. As a result of the restrictions of 1921 and 1924, about three-fifths of our immigrants came thereafter, not from Europe and the Eastern Hemisphere, but from other countries of the Western Hemisphere, chiefly Canada and Mexico. In the fiscal year ending June 30, 1927, 335,175 immigrant aliens were admitted to this country, but only one-third of them were European "quota" immigrants.

The immigration law of 1924 provided that "no alien ineligible to citizenship shall be admitted to the United States." This clause is very important, because the naturalization law states that its provisions "shall apply to aliens being free white persons and to aliens of African nationality and to persons of African descent." In other words, only Caucasians and Negroes are eligible to citizenship and hence to immigration. It is hoped that Mongolians and other Asiatics may be excluded under some such general provision, rather than, as at present, under specific Chinese and Japanese exclusion acts.

**24. National-origins Plan.**—It was proposed that the act of 1924 should remain in effect for only three years, *i.e.*, until July 1, 1927. In the meantime a thorough study was to be made of the people of the United States in order to determine our "national origins" for the purpose of fixing immigration quotas. The Secretaries of Commerce, Labor, and State, assisted by the Census Bureau, were to cooperate in this study of national origins and to report to the President, who was to announce the new quotas on July 1, 1927. Such a study was made, but the United States Senate was not then satisfied with the proposed quotas. Accordingly, the act of 1924 was continued for one more year, *i.e.*, until 1928, when the new national-origins plan went into effect.

The national-origins plan provided that

. . . the annual quota of any nationality for the fiscal year beginning July 1, 1927, and for each fiscal year thereafter, shall be a number which bears the same ratio to 150,000 as the number of inhabitants in continental United States in 1920 having that national origin bears to the number of inhabitants in continental United States in 1920, but the minimum quota of any nationality shall be 100.

It was expected that these national quotas, determined by the ancestry of our population in 1920, would remain fixed for each succeeding year, as long as the law remained in force.

The changes proposed were slight. Under the 1924 act, which used the 1890 census, 84.5 per cent of the total number of quota immigrants were from Northern and Western Europe and 15.5 per cent were from Southern and Eastern Europe. Under the quotas submitted in 1927 Northern and Western Europe furnished 83.7 per cent, and Southern and Eastern Europe 16.3 per cent of the quota immigrants.

The limit of 150,000 immigrants applied merely to European quotas. Annual immigration figures for the years 1928, 1929, and 1930 ran about twice that amount. In other words, an equal number of quota-exempt immigrants came to the United States from Canada, Mexico, and other countries of North and South America.

**25. Prohibition of Immigration.**—The national-origins plan had scarcely been put into effect when the economic depression of 1929 to 1933 set in. As the volume of unemployment in this country rose by the millions, it was felt that a still more drastic restriction of immigration was necessary to protect the jobs of American workers. An executive order of President Hoover in 1931 placed a temporary ban on foreign immigration into the United States, which amounted to almost complete exclusion. As a result of this order and the depression itself, the number of immigrants fell from 241,700 in 1930 to 97,139 in 1931, 35,576 in 1932, and 23,068 in 1933.

Meanwhile, a large number of European immigrants in the United States, unable to find work, decided to return to their native lands. A review of the figures given in the table on page 55 will show that for each of the depression years 1932 and 1933 the United States experienced an excess of emigration over immigration of about 100,000.

**26. Asiatic Immigration and Its Exclusion.**—The immigration of Chinese began with the discovery of gold in California in 1849. With the later development of the Pacific states they threatened to immigrate in such large numbers that Congress passed the Chinese Exclusion Acts of 1882, 1884, and 1888. The immigration of Chinese of the laboring classes was completely forbidden. Our colonial possessions in the Pacific Ocean, however, have a large proportion of Mongolians, some of whom have smuggled themselves into continental United States.

Although the Japanese did not begin to cross into America until after the Chinese, the former now slightly exceed the latter. They have played an important part in the fruit industry of California. However, industrial competition and race friction soon developed. Thus, it has been contended by the Japanese government that the laws of California discriminated against the Japanese in the matter of land holding and public education.

For a number of years there was a "gentlemen's agreement" between the United States and Japan for the limitation of Japanese immigration. In 1924, however, the American Congress passed a Japanese Exclusion Act somewhat similar to our Chinese Exclusion Act. The Japanese objected to being treated differently from any other friendly nation, and the desired objective could have been obtained in a more diplomatic fashion. The number of Japanese, who would have been eligible for immigration under the general immigration restriction act of 1924, would have been almost negligible.

The economic and social problems of Asiatic immigration are more acute than those of European immigration. The economic problem of low wages and low standards of living also is greater. The social problem is still more serious, because the Mongolian is even more difficult to assimilate. If Asiatic immigrants were not excluded, America would be confronted with a racial problem in the West somewhat similar to the Negro problem of the South.

**27. Negro an Important Element in Our Labor Supply.**—Negro immigration to America took place during colonial days. It was compulsory rather than voluntary, because the Negroes were brought over as slaves. That they are now here in the United States is due to no action of their own, which should be remembered by the descendants of the early white settlers. Moreover, the freed slaves were turned loose without land or capital and suddenly compelled to adjust themselves from a system of forced labor to one of freedom of contract.

Nearly all Negroes in the United States formerly lived south of the Mason and Dixon line. Indeed, most of them resided within the "Black Belt," which is a broad agricultural plain extending from Virginia to Texas. The states of Mississippi and South Carolina, as well as many counties in other southern states, still have more Negroes than Caucasians in their total population.

Until the last generation or two, the South was primarily agricultural, and farm labor was supplied principally by the Negro, just as the industrial states of the North and East relied on European immigration to supply most of their unskilled labor for factories and mines. Negro ownership of the land is as desirable in the agricultural South as peasant ownership in Europe. These agricultural problems are somewhat similar. Some progress, however, has been made in this respect, and the per capita wealth of the Negro has slowly risen.

In some sections of the South a survival of the old plantation system still exists. The Negro is sometimes kept in debt to his landlord and the plantation store. A contract may be signed which holds him to his job, for colored fugitives and vagrants are severely punished by law. Peonage differs from slavery merely in the fact that the bonds of the



former system are those of chronic indebtedness, rather than those of status, a condition fixed by birth.

During the past few decades a tremendous northward migration of Negroes has taken place. They have gone from their former agricultural environment of the South into the congested industrial communities of the North, taking their places beside the European immigrants as an important element in the supply of unskilled labor. This movement assumed large proportions during the World War, when our expanded industries were faced with a labor shortage created by the falling off of European immigration. The postwar restrictions placed on foreign immigration will make the American Negro a still more important element in the industrial life of the future.

American experience in the decade or two before the great depression seemed to indicate that Negro labor could be employed successfully in industry, as well as in agriculture. The Negro proved himself to be a fairly efficient and dependable industrial worker. Before the devastating effects of cyclical unemployment made themselves felt, the Negro seemed to possess, or to be acquiring, those habits of steady industry and thrift which numerous immigrant groups have displayed.

The economic problem of the Negro centers about his standard of living, as well as his industrial efficiency. Both humanitarian aims and selfish interests should prompt white workers to encourage the Negro to raise his standards of living, rather than to view such aspirations with suspicion. Helpful cooperation must replace irritating friction and open hostility. Racial amalgamation is sought by few intelligent leaders of either group. However, friendly coexistence is not only desirable but also possible.

The Negro, as well as the immigrant, is now an important factor in the unskilled labor groups of all our basic industries. There is the same industrial competition of low standards of living with higher ones and the same depressing effect on the wages of the native-white workers. Like the immigrant and most other unskilled groups, Negro labor has not been well organized and has profited little by collective bargaining. However, the colored worker has been excluded from labor organizations as much, or more, because of race prejudice as because of his own indifference.

War-time and postwar prosperity opened new industrial opportunities to the Negro, but the great economic depression of 1929 to 1933 affected him more quickly and more drastically than most other classes, even among unskilled labor groups. Thousands of Negroes in industrial communities of the North suffered severely from unemployment and poverty. Negroes claimed that they were discriminated against in the general layoff of employees during the depression and by the substitution of white for colored help. White residents, in turn, complained that an

unduly large portion of relief funds went to the support of colored families.

**28. Summary.**—During the past century, the United States experienced a phenomenal increase of population. In 1790, our population was less than four million, but, in 1930, it was over 120 million. However, the rate of population increase has been declining. Both the birth rate and the death rate have decreased. The average age of our population has been raised by the conservation of human life owing to medical progress.

European immigration to the United States during the century from 1820 to the outbreak of the World War amounted to 30 or 35 millions. However, this large volume of immigration cannot be viewed as a net increase to our population, because of its effects on the native birth rate. Of course, this problem is of mere historic interest. In the years to come, our population will increase slowly by a natural surplus of births over deaths in our native population, rather than by wholesale immigration as in the past.

At present, about nine-tenths of our population is Caucasian, of whom between eight- and nine-tenths are native born. The foreign born and those of foreign parentage are to be found chiefly in the North Atlantic and North Central industrial states.

Immigration to the United States increased from a few thousand annually in the opening years of the last century to a maximum of a million a year in some of the opening years of the present century. The development was from small-scale to large-scale immigration. Fluctuation in the volume of immigration has been due to wars and to alternating conditions of prosperity and depression.

The early sources of our European immigration were Great Britain and Ireland, but the German and Scandinavian contributions also were important. Toward the close of the past century, however, the character of our immigration changed. Its European sources shifted from the northwestern countries to the Mediterranean lands. Thus in the decade between 1861 and 1870 Northern and Western Europe furnished over 70 per cent of our immigrants, but in the decade between 1901 and 1910 Southern and Eastern Europe furnished almost 70 per cent of our immigrants.

The problem of immigration presents social, economic, and political phases. From an economic point of view, immigration presents the problem of industrial competition between different standards of living. Although it has played an important part in the industrial development of the United States, immigration has tended to lower the wages of American unskilled labor. The social problem of immigration is represented by the difficulty of assimilating and Americanizing our foreign immigrants.

Early immigration to the United States was regulated neither as to quantity nor as to quality. In the closing years of the past century, however, numerous laws were passed to keep out undesirables. During the period of the World War, America passed from the regulation of immigration to the restriction of immigration. The literacy test was added to existing restrictions as to contract labor and as to the possession of a certain amount of money. In 1921, a quota system was imposed which limited European immigration in a given year to 3 per cent of that of a given nationality in the United States according to the census of 1910. In 1924, the rate was further reduced to 2 per cent and the basis changed to the census of 1890. A "national-origins" plan for the determination of immigration quotas went into effect in 1928.

The depression of 1929 to 1933 resulted in a decrease in immigration and an increase in emigration. In 1931, immigration was practically prohibited. In 1932 and 1933, emigration from the United States exceeded immigration to it.

The population of the United States is not entirely Caucasian. There are about 300,000 Indians, most of whom live in the West. Again, there are about 12,000,000 Negroes in our population. Although located principally in the agricultural South, there has been a considerable migration within recent years of the southern Negro to the industrial cities of the North. There are also over 200,000 Mongolians, Japanese, and Chinese, on our western coast. Differences of race and in standards of living prompted the United States to adopt a policy of exclusion toward the Chinese in 1882 and toward the Japanese in 1925. Finally, there are in our Southwest over 1,000,000 Mexicans, whose immigration to the United States has increased greatly in the past two decades.

#### Collateral Reading

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### Questions for Discussion

1. Show how the population of the United States has grown at a reduced rate of increase. Can you suggest reasons?
2. a. State the Malthusian law of population.  
 b. Do you believe it? Why or why not?  
 c. Confirm or refute from American experience.
3. a. Show how the average length of life has been increased in the United States.  
 b. Give causes and effects.
4. Contrast early and later causes of immigration.
5. Contrast early and later immigrants to the United States.
6. Criticize the immigration restriction laws of 1921 and 1924.
7. Criticize the exclusion of Japanese. Defend this policy.
8. What are some economic problems of the Negro?
9. Show the effects of immigration on standards of living and wages.
10. What peculiar problems does Asiatic immigration present?
11. Show how the United States passed from free immigration to regulated immigration and then from regulated immigration to restricted immigration.
12. Indicate the effects of wars and the business cycle on the problem of immigration.
13. Do you regard the census of 1890 or that of 1910 as the fairer basis for determining immigration quotas? What other alternatives are there?

14. What is the "national-origins" plan?
15. Do you favor the literacy test for immigrants? Why or why not?
16. Defend or criticize our immigration policy during the recent depression.
17. *a.* When and why did emigration exceed immigration?  
*b.* Do you expect this situation to be permanent or temporary? Why?

#### Topics for Investigation

1. The relationship between the development of the economic life of a people and the size of its population.
2. Immigration and the native-white birth rate.
3. Immigration restriction and the need for unskilled labor.
4. The World War and our immigration policy.
5. The selection of immigrants on the basis of fitness.
6. Organized labor and the immigrant.
7. Organized labor and the Negro.
8. The economic status of the Negro in the Black Belt.
9. The migration of the Negro into industrial cities of the North.
10. Americanization programs and the public school.



## PART TWO PROBLEMS OF INCOME

Chapter IV. Our National Wealth and Income, *Economic Prosperity and the Productivity of Labor.*

Chapter V. Distribution of Our National Income, *The Facts of Economic Inequality and The Ideal of Equality of Opportunity.*

Chapter VI. Theories of Wages and the Course of Real Wages, *Labor's Share in Our Increased Prosperity.*

Chapter VII. Poverty and Subnormal Standards of Living, *The Inadequacy of Family Wages.*





## CHAPTER IV

### OUR NATIONAL WEALTH AND INCOME

#### ECONOMIC PROSPERITY AND THE PRODUCTIVITY OF LABOR

**1. Ideal of Economic Prosperity.**—Economic prosperity may be defined as a relative abundance of economic goods, including both commodities and services!

Social welfare includes many other elements in addition to economic wealth, just as individual happiness requires more than an adequate income. For illustration, spiritual and aesthetic ideals, as well as moral and ethical values, are necessary to social welfare and individual happiness. But economics is a bread-and-butter subject and the economist confines himself naturally to economic prosperity, although he freely admits that man does not live by bread alone.

Many of the most important values of life are non-pecuniary. Some are not only immaterial but also subjective. But there is little common agreement as to their nature and relative desirability. Wealth, however, is material and objective. Moreover, it is transferable and possesses exchange value. Although economic services are immaterial, there is general recognition of their pecuniary values, which can be measured in the market place under our price system!

It is generally conceded that economic prosperity is one element in social welfare, whatever else the latter term may include. Similarly, the happiness of most individuals, who are ordinary human beings and neither misers nor saints, requires sufficient income to meet the physical needs of life and to conform to the social standards of the group to which they belong.

Prosperity is an economic ideal in the same sense that democracy is a political ideal, virtue a moral ideal, and beauty an aesthetic ideal. Any ideal is a relative term and an advancing, or at least a changing, concept. Social progress in that direction is accompanied by a lifting of that same ideal to still higher standards. Consequently, progress toward it is obscured. Thus economic progress toward an existing ideal of prosperity constantly advances that goal of economic well-being. As higher standards of living are enjoyed, still higher standards are desired. Hence prosperity is a relative concept, even though it be definable, objective, and measurable.

**2. Causes of National Prosperity.**—The chief causes of national prosperity are the same as those of economic progress, for prosperity

is a test and a goal of economic progress. A discussion of either of them would involve a review of all factors of production, including land, capital, labor, and business enterprise.

The primary agents of production are land and labor. A rich geographical environment, occupied by an intelligent and industrious people, is conducive to national prosperity, provided the population is not too dense. Accumulated capital and acquired knowledge are important secondary factors in production, for increased prosperity is conditioned by the state of the arts of a people and the nature of their social institutions.

The material well-being of our Occidental civilization is due in no small part to (1) a favorable ratio of population to natural resources and (2) the substitution of power machinery for such simple forms of capital as hand tools and of modern technology for earlier forms of acquired knowledge, such as primitive handicrafts and crude rule-of-thumb. In short, the industrial revolution made possible our transition from a deficit economy of pain to surplus economy of pleasure. Strange as it may seem, we now face the so-called "problem" of surplus commodities and extensive leisure, instead of the former ones of insufficient goods and excessive hours of labor.

**3. American Prosperity.**—In spite of the recent depression, which may be termed a paradox of plenty, it is generally conceded that the United States is a relatively prosperous nation. Nature has been very bountiful to us, for our physical environment is characterized by numerous and valuable natural resources. Soil and climate are rich and diversified; excellent waterways and rich mineral resources exist in abundance. Moreover, as was shown in the last chapter, the population of America is not so dense as that of Europe or Asia.

In spite of considerable waste, it may be said that America's adaptation to her physical environment has been fairly satisfactory. Our inventive genius and capacity for industrial organization are famous. The intelligence and skill of our workers are probably as great as anywhere else in the world. Although productivity per acre is higher in those countries which practice a more intensive cultivation of the land, productivity per man is higher in the United States than in most other portions of the world.

**4. High Productivity Essential to Great Prosperity.**—Supply and demand are identical in the sense that consuming power comes ultimately from production, and, in the long run, increased production means increased consumption demand. Therefore, higher standards of living are promoted, rather than menaced, by increased production, for an enlarged national income makes possible the raising of any share in distribution. On the other hand, long-continued or widespread destruction of wealth, in order to raise the prices of certain commodities,

is bound to reduce the national income out of which wages must be paid. Again, restriction of output, like the actual destruction of wealth, operates in the same negative fashion. In short, anything which tends to increase the national income makes it possible to raise real wages, even though that may not take place immediately or proportionately. Labor is bound to share eventually to some extent in increased national prosperity and to suffer from a decrease in the national income.

If a conflict of interests among individuals or groups, representing different shares in distribution, results in such an open or tacit industrial warfare that production suffers, the national income will be reduced. In the past, most attempts of workers to raise wages have concerned distribution almost entirely. Frequently a restriction of production, rather than its increase, has been preached and practiced. On the other hand, employers often have stressed only production, ignoring or minimizing problems of maldistribution.

**5. Equitable Distribution Also Essential to Prosperity.**—Individual prosperity does not follow naturally or necessarily from collective prosperity. In this land of plenty a surprisingly large number of families live in dire poverty, even in periods of so-called "prosperity." Serious maladjustments, such as unemployment, continue beneath the surface, only to rise conspicuously in periods of economic depression. In short, our prosperity has been unevenly diffused throughout our population and irregularly distributed over periods of time. Can a nation properly be called prosperous, if its prosperity is only for the few and only for the time being?

The depression of 1929 to 1933 demonstrated that American prosperity was lacking in stability, as well as spotty in character. Although the United States had led the world in economic production in the previous decade, it had failed to cope adequately with the problem of improved distribution. Truly it is a paradoxical or ill-digested prosperity which is unable to consume its own huge and varied output because of a maldistribution of purchasing power among the masses and over periods of time.

**6. Problems Involved in an Analysis of National Prosperity.**—An analysis of American prosperity requires not only a clear definition of terms but also a full exposition of the facts. The scientific method seeks to determine, not only the size of our national income, but also its actual distribution. What is the basis in fact for our assumption of prosperity on the part of the nation as a whole and on the part of various economic groups within it? Is the national income adequate in size to permit the elimination of poverty? Is it distributed in such a fashion that a decent standard of living can be enjoyed by all workers and their families?

Prosperity has been defined as the relative abundance of economic commodities and services. It would follow then that the prosperity or lack of prosperity of any group is to be judged by the relative size of its wealth and income. Let us first review the usual definitions of these terms and then discuss the possibility of measuring national wealth and income.

**7. Distinction between Wealth and Income.**—Wealth represents a stock of economic goods in existence at any given time. Income, on the other hand, represents a flow of commodities and services over any period of time. Wealth is a source of income, and income is the product or yield of wealth, worked on by labor!

To repeat a homely but familiar illustration, a cow is wealth, but her milk is income. Again, wealth may be compared with a reservoir of water, and income to the weekly or yearly flow through the water meter. The national wealth similarly is a great reservoir of economic commodities, but the national income is a flow of commodities and services to consumers over a period of time!

It is obvious that great inequalities exist in the ownership of this national wealth. It is equally apparent that this stream of national income divides itself into branches of various size. To some individuals and families come shiny automobiles, fine clothes, and other luxuries, whereas to others come merely the bare necessities of life!

This distinction between wealth and income, or between capital and income, is as important as it is familiar. In the field of taxation, for illustration, income taxes are based on the flow of commodities and services in the form of wages, salaries, rent, interest, and profits enjoyed during a calendar year. On the other hand, the general property tax is based on the wealth owned by an individual at the time the assessment is made.

**8. What Is National Wealth?**—It is easy to define wealth and income and to draw a glib distinction between them! But the application of these generalities to particular problems is difficult, as can be seen in all attempts to appraise the national wealth and income of the United States.

The same things are not economic wealth among different peoples and within the same nation over a long period of years. Water is a free good to most of us, but land is not. On the other hand, the reverse is the situation among some tribes in the Sahara Desert.

As population increases, natural resources develop greater scarcity. Although some were originally and naturally scarce, as are the precious metals, others became so by waste or wanton destruction, as have timber and game! In any event, the general tendency is toward increased scarcity, due to immigration and settlement. In other words, as the pressure of population on natural resources increases, what were formerly

regarded as free goods become economic goods. The legal institution of private property is extended to protect the possessors of these goods, as exchange value develops in them.

'Physical wealth, in terms of feet of timber, head of buffaloes, or tons of coal, lessens rather than increases, as these goods are consumed or wasted, but their values in exchange, as expressed in dollars or some other pecuniary unit, tend to increase because of their growing scarcity. Hence the paradox of wealth. As we become poorer in some forms of physical wealth, we become richer in the values represented by them.'

This problem must be faced frankly by all students of economics who would measure the increase or decrease in our national wealth over a period of time. 'Thus an increase in its monetary value, as revealed by various census estimates, is due, in part, to the fact that some forms of wealth, formerly regarded as free goods, have become economic goods. Again, some economic goods, decreasing in amount, became more valuable as they became scarcer. Is it correct, therefore, to assume that the national wealth has increased because of, and in proportion to, this increase in exchange values?'

**9. What Is National Income?**—'It is as difficult to determine just what items should be included under the term "income" as under the term "wealth."' Income-tax bureaus employ a large number of government officials to study individual cases and to interpret changing income-tax laws. Again, a research bureau, attempting to measure the national income over a period of time, finds extremely difficult the task of deciding just what items to include and what to exclude. It wishes to omit no portion of the national income, but it is constantly on the alert to avoid double counting.

'One moot point is the matter of savings. Should savings be counted as part of one's income, and, if so, when? The choice must be made between the time the saving is made or the time the saving is consumed. Otherwise, double counting will result.'

Some individuals today, such as farmers, consume their own products and services to a greater extent than do other individuals. On the whole, however, more commodities and services go through the market place today than formerly, when individuals and communities were more nearly self-sufficient. 'A man may shave his own face or he may go to a barber for that same service. A woman may get her own meals at home or she may accept a position and eat in a restaurant. Shall we say that one has no income or less income because he or she does not receive payment in money or work for a wage? Shall we say that the farmer and his wife who live on their own land and who consume their own produce are any less income producing and income consuming merely because their commodities and services do not go through the market and hence fail to register under our price system?'

These difficulties in defining the national income can be seen from the following illustration. *A* and *B* each buys a house for \$10,000 apiece, but *A* lives in it as his own home, whereas *B* rents it and lives in a hotel. Is it logical to say that *B* receives an income on his capital investment of \$10,000, but that *A* does not, merely because he does not receive money rent for it from himself? Again, is *A*'s non-pecuniary income any less real than that of *C*, who may spend his \$10,000 for a 5 per cent bond and pay the annual interest on it to the landlord of his rented house or apartment?

Because of these and similar problems, one of the outstanding research workers<sup>1</sup> on the problem of income estimated the national income of the United States in dollars received and then imputed an additional amount to allow for income from durable consumer's goods enjoyed by their owners which did not go through the market place.

#### 10. Difficulties in Measurement of National Wealth and Income.—

'Difficulties in the measurement of wealth and income are even greater than those encountered in defining these terms, for many of the same problems present themselves in an even more baffling form. Shall free goods be included in an estimate of the national wealth; and, if so, what method of evaluation shall be used? Shall services rendered by individuals for themselves be included in an estimate of the national income? If so, how can their value be measured? If the national income is inflated to include the enjoyment which owners receive from their own, rather than rented, durable goods, there remains the problem of imputing a pecuniary value to them in the absence of market price as the criterion.'

'Moreover, a considerable portion of the national wealth is in the form of public goods, as contrasted to economic and free goods. They belong to the various governmental units of our country. Some of these public goods, such as roads, are economically productive, but others, such as battleships, are destructive. Necessary or unnecessary, desirable or undesirable, they do not yield an income. Similarly an increasing portion of the national income goes into collective consumption, which is represented by such divergent governmental services as furnishing aids to transportation or means of protection, illumination, or education. Although important, shall these items be regarded as part of the national income? If so, how can these very different types of services be appraised in dollars? Even though we accept their cost figures, how can they be distributed properly over time of consumption?'

'One portion of the national income goes into the formation of consumption goods but another replaces or creates capital goods which are to be used for further production, rather than for immediate and direct consumption. Due allowance must be made for the replace-

<sup>1</sup> KING, W. I., "The National Income and Its Purchasing Power."

ment fund of industry, or the national income will be exaggerated far beyond its true size. Again, constant care must be taken to avoid duplication of the same items which may reappear in various forms as they go through our roundabout system of production!

In the last place, it is important, even though familiar, that real income be distinguished from monetary income. Any estimate of the national wealth or income over a period of years must be refined in terms of changes in the general price level. The increase or decrease in either wealth or income, as expressed in dollars, may be apparent rather than actual, owing to changes meanwhile in the purchasing power of money. Real income is a flow of commodities or services, for which dollars have been merely the medium of exchange or fluctuating standard of value.

**11. Estimates of Wealth of the United States.**—Various attempts have been made to estimate in monetary terms the wealth of the United States, notably by the Census Bureau of the Federal government and by the National Industrial Conference Board. These estimates may be found in the table on page 86.

According to the estimates of the U. S. Census Bureau our national wealth in current dollars increased from 88 billion dollars in 1900, to 107 billion in 1904, to 186 billion in 1912, to 321 billion in 1922. It will be remembered that the period from 1900 to 1912 was one of slowly rising prices and that from 1912 to 1922 was one of war-time inflation and the minor postwar deflation of 1921.

During the following period of prosperity and relative price stability, the national wealth of the United States, according to estimates of the National Industrial Conference Board, rose slowly from 335.6 billion dollars in 1923 to 361.8 billion dollars in 1929.

During the great depression of 1929 to 1932 the national wealth of the United States in current dollars, according to these estimates of the National Industrial Conference Board, decreased from 361.8 billion dollars in 1929 to 247.0 billion in 1932, or by about one-third, which is just about equal to the decline in the general price level for those years.

What do these figures of our national wealth mean? How was this great sum of values built up and how did these billions disappear? Although a simple matter to students of economics, numerous erroneous articles in the public press and oft-repeated fallacies on the lips of the unforgotten man on the streets make necessary a brief explanation, even at the risk of repeating elementary economics.

Economic wealth has been defined as a stock of goods in existence at a given time, *i.e.*, all those commodities possessing materiality, utility, scarcity, and transferability. It is apparent that the physical stock of commodities in the United States was approximately as great in 1932 as in 1929, despite their enormous shrinkage in monetary value and in income-producing power. No earthquake or tidal wave carried away

a large portion of our physical wealth, but a precipitous decline in the general price level reduced the exchange value of most economic goods in terms of the dollar. As long as national wealth is measured in value units, such as dollars and francs, rather than in physical units, such as tons or gallons, so long will it be necessary constantly to refine all estimates in terms of the ever-changing price level.

The same line of reasoning must be applied to the Census Bureau's estimates of our national wealth from 1900 to 1922, which cover about

ESTIMATES OF NATIONAL WEALTH OF THE UNITED STATES  
(In billions of current dollars)

Year	National Industrial Conference Board	Bureau of the Census	Other estimates
1900	.....	88	
1904	.....	107	
1912	.....	186	
1920	488.6		
1921	317.2	.....	281.1
1922	.....	320.8	353.0
1923	335.6		
1924	331.4		
1925	362.3	.....	380.0
1926	356.5		
1927	346.3		
1928	360.0		
1929	361.8	.....	450.0
1930	329.7	.....	400.0
1931	280.3		
1932	247.0		

Other estimates include the following: those of the Federal Trade Commission for 1922 and 1925, that of the U. S. Chamber of Commerce for 1930, that of W. I. King for 1921, and that of W. R. Ingalls for 1929.

two decades of rising prices. Indeed, the general level of prices in 1922, even after some deflation in 1920 and 1921, was between two and three times that of 1904. Hence the real wealth of the United States did not triple or quadruple from 1904 to 1922, as did these monetary estimates of the Census Bureau. Nevertheless, there does seem to have been some increase in the national wealth of the United States during these two decades, even when refined in terms of a rising price level. However, some of this increase in our real wealth was due to a change in the status of certain items, formerly excluded as free goods, but later included as economic goods because of a developing scarcity.

The enormity of the wealth of the United States may be seen by a comparison with other countries of the world. In the decade following the World War it was estimated that the national wealth of the United



States was about equal to the combined national wealth of all the countries of Western Europe. Again, the rate of increase in the national wealth of the United States from 1912 to 1922 was greater than that for most other countries having comparable data. However, such comparisons are dangerous for the reasons just given.

## 12. Comparison of National Incomes before and after the World War.—Income is an even better measure of prosperity than is wealth.

TOTAL AND PER CAPITA NATIONAL INCOMES OF VARIOUS COUNTRIES IN 1914 AS COMPARED WITH PERIOD BETWEEN 1924 AND 1928, EXPRESSED IN CURRENT DOLLARS

Nation	Total national income in 1914, millions of dollars	Total national income period between 1924 and 1928, millions of dollars	National income per capita in 1914, dollars	National income per capita period between 1924 and 1928, dollars
United States.....	33,200	89,419	335	749
United Kingdom...	10,950	18,390	243	409
Germany.....	10,460	11,900	146	190
France.....	7,300	8,228	185	201
Italy.....	3,890	4,728	112	115
Spain.....	1,120	4,116	54	187
Japan.....	1,580	5,500	29	66
Austria-Hungary...	5,350		102	
Austria.....		940		140
Hungary.....		962		113
Czechoslovakia....		2,460		172
Jugoslavia.....		1,414		109
Australia.....	1,260	2,955	263	477
Canada.....	1,460	5,500	195	579
Union South Africa.		851		112
India.....		9,250		37

<sup>1</sup> The figures for 1914 are taken from a summary of the estimates of various foreign writers compiled by Sir Josiah Stamp and adapted by National Bureau of Economic Research. Cf. "Income in the United States, 1909 to 1919," vol. 1, Summary, p. 85. The figures for 1924 to 1928 are taken from "Some New Estimates of National Income" prepared by Harvey E. Fisk of the Bankers Trust Company. Cf. *American Economic Review*, p. 23, March, 1930. These estimates can be compared only with a considerable margin of error, for the annual incomes in these various countries are for different years running roughly from 1924 to 1928. The 1924-1928 estimate for Spain is of an even earlier date, but it is apt to be an exaggeration rather than a conservative estimate. The estimate for Great Britain (1924), unlike that for 1914, excludes the Irish Free State. No estimates have been refined for changes in purchasing power of money from 1914 to the period from 1924-1928.

It will be seen that our national income, like our national wealth, is very large. Moreover, it was growing rapidly in the years before the depression of 1929 to 1933.

The contrast in national income and per capita income between the United States and other countries is very striking. The above table gives the relative position of the chief countries of the world with respect

to their total national incomes and their per capita incomes, expressed in current dollars just before and after the World War. In this manner can be seen relative changes, as well as relative differences in national monetary incomes.

Total National Incomes (in Millions of Dollars)		Per Capita National Incomes (in Dollars)	
Australia	2,955	Japan	662
Spain	4,116	Italy	115
Italy	4,728	Spain	187
Canada	5,500	Germany	190
Japan	5,500	France	201
France	8,228		
Germany	11,900	United Kingdom	409
United Kingdom	18,390		
		Australia	477
		Canada	579
United States of America	89,419	United States	749

CHART 4.—Comparative national incomes of some important nations (before the recent world depression). Period from 1924 to 1928. (See table on page 87.)

**13. Growth of Our National Income.**—It has just been demonstrated that the United States has been a prosperous nation as judged by a comparison of our national wealth and income with those of other countries. The question must now be raised as to whether the United States is becoming more or less prosperous. Has our real per capita national income been increasing or decreasing? The comparison now becomes one of time, rather than one of place.

In order to determine whether or not the national income has been increasing and, if so, to what extent, it is necessary to refine changes in the national income in terms of changes in the general price level. The purchasing power of the dollar varies over a period of time. Moreover, the estimates must be refined further by taking into consideration changes in population.

Although there have been short periods of decline, the total real income of the people of the United States increased materially during the past century. Moreover, our total real income was increasing more rapidly than our population before the great depression of 1929 to 1933.

Dr. King concluded that the per capita real income of the people of the United States, as expressed in terms of a constant, *viz.*, the average price level from 1890 to 1899, increased from \$69 in 1850 to \$262 in 1910. If Dr. King's estimates are correct, it would seem that the average per capita real income of the people of the United States increased fourfold within those sixty years.<sup>1</sup> Although some of this increase in the per capita national income can be explained away in terms of a transition from a self-sufficient economy to one of interdependence and exchange, these estimates do afford some basis for an assumption of increasing prosperity.

The national income for the two more recent decades has been studied still more intensively by Dr. King, working under the auspices of the National Bureau of Economic Research. His results by years from 1909 to 1928, inclusive, are given in the table on top of page 90. The first two columns give total national income, including imputed income, *i.e.*, commodities and services flowing from one's own possessions and powers, which are consumed directly by the producer and which do not go through exchange markets and the pricing process. The first column expresses total national income in current dollars and the second column in constant dollars of 1913 purchasing power. The third and fourth columns give total national income, excluding imputed income, first in current dollars and then in 1913 dollars. The last two columns give per capital national income, first in current and then in 1913 dollars.

These estimates of Dr. King indicate that the total national income in current dollars, either including or excluding imputed income, tripled from 1909 to 1928. Real national income, as measured in constant dollars of 1913 purchasing power, almost doubled in the same period. Finally, per capita national income in current dollars more than doubled itself from 1909 to 1928; and per capita real national income, in terms of a constant dollar of 1913 purchasing power, increased by about one-third in the same period.

This study of our national income by Dr. King carried the story down to the recent great depression. What happened in the following four years is of especial interest. Fortunately, Dr. Simon Kuznets, also working under the auspices of the National Bureau of Economic Research, has given us the sequel to the statistical narrative of Dr. King for the earlier years. Kuznets's study of the national income from 1929 to 1932 will be found in the table on page 91.

<sup>1</sup> KING, W. I., "Wealth and Income of the People of the United States," p. 129.

Kuznets's analysis of our national income for the years from 1929 to 1932 is as pessimistic as King's survey from 1909 to 1928 was optimistic. In these four years of the great depression national income produced fell in current dollars from slightly over 83 billion dollars to a figure midway between 39 and 40 billion dollars. In other words, it declined by more than one-half and to the prewar level. It is apparent that this

NATIONAL INCOME OF THE UNITED STATES FROM 1909 TO 1928, INCLUSIVE<sup>1</sup>

Year	Total national income including imputed revenue, millions of dollars		Total national income excluding imputed revenue, millions of dollars		Per capita national income received, dollars	
	Current purchasing power	1913 purchasing power	Current purchasing power	1913 purchasing power	Current purchasing power	1913 purchasing power
1909	29,605	31,300	27,661	29,221	327	346
1910	31,430	32,380	29,345	30,207	340	350
1911	31,858	32,920	29,660	30,634	339	351
1912	33,977	34,656	31,755	32,373	357	364
1913	35,723	35,756	33,393	33,413	368	368
1914	35,647	35,250	33,227	32,841	360	356
1915	37,205	36,636	34,690	34,137	371	365
1916	43,288	39,559	40,585	36,996	425	389
1917	51,331	40,242	48,314	37,613	497	390
1918	60,408	40,150	56,658	37,261	579	385
1919	65,949	38,017	61,628	35,098	628	362
1920	73,999	37,573	68,442	34,348	695	353
1921	63,371	36,710	58,271	33,638	585	339
1922	65,925	40,565	61,187	37,623	601	370
1923	74,337	45,164	69,295	42,072	667	405
1924	77,135	46,758	71,905	43,577	680	412
1925	81,931	48,412	76,561	45,191	712	421
1926	85,548	50,421	80,284	47,261	735	433
1927	88,205	52,892	82,921	49,655	748	448
1928	89,419	54,022	84,119	50,692	749	452

<sup>1</sup> KING, W. I., "The National Income and Its Purchasing Power," pp. 74, 77, and 78.

decline represented a cut in real income produced, as well as a mere fall in current monetary estimates, for the decrease in current dollars in national income produced was far greater than the decline in the wholesale price index or in the cost of living index, as revealed by the U. S. Bureau of Labor Statistics.

The decline in income paid out was severe, but not quite so drastic, falling in current dollars from slightly over 81 billion dollars in 1929 to almost 49 billion dollars in 1932. Although falling by somewhat less than half, rather than by somewhat more than half, this decline in income

paid out in current dollars represented a decrease in real income, because the shrinkage here was greater than that in the general price level. Finally, it will be noted that in these years of depression from 1929 to

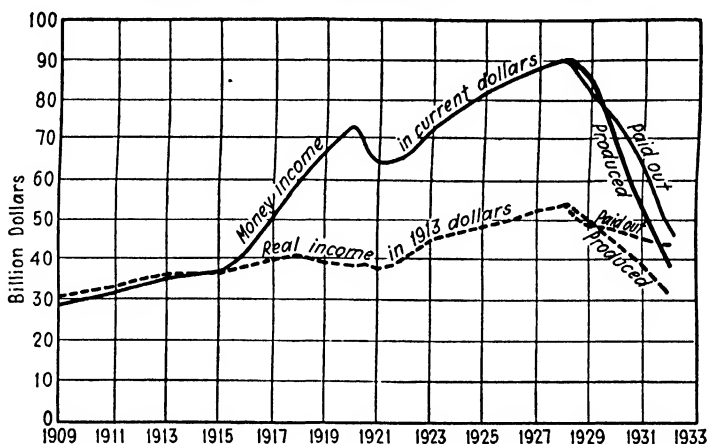


CHART 5.—National income of the United States (from 1909 to 1932) (in billions of dollars). [According to estimates of National Bureau of Economic Research. (Indices from 1909 to 1928 are those of W. I. King (see table on page 90). Indices from 1929 to 1932 are those of S. Kuznets (see table below).]

NATIONAL INCOME OF THE UNITED STATES, PAID OUT AND PRODUCED FROM 1929 TO 1932, INCLUSIVE<sup>1</sup>

	Millions of dollars			
	1929	1930	1931	1932
Income paid out.....	81,136	75,410	63,247	48,894
Business savings or losses.....	1,896	-5,065	-8,604	-9,529
Income produced.....	83,032	70,345	54,643	39,365
	Percentages of 1929			
	1929	1930	1931	1932
Income paid out.....	100.0	92.9	78.0	60.3
Income produced.....	100.0	84.7	65.8	47.4
U. S. B. of L. S. cost of living index.....	100.0	97.4	88.9	80.4
U. S. B. of L. S. wholesale price index.....	100.0	90.7	76.6	68.0

<sup>1</sup> KUZNETS, S., "National Income, 1929-1932," National Bureau of Economic Research, *Bulletin* 49, p. 3, June 7, 1934.

1932, inclusive, income paid out exceeded income produced by billions of dollars. In other words, industry was drawing upon past savings, accumulated in former periods of prosperity, during which income produced exceeded income paid out.

#### 14. Increase in Physical Production before Great Depression.—

Studies of the volume of physical production without reference to current prices also indicate an increase of income produced before the great depression of 1929 to 1933. This increase in the physical volume of production explains and reaffirms our conclusions as to the growth of the per capita real income of the United States in the long run.

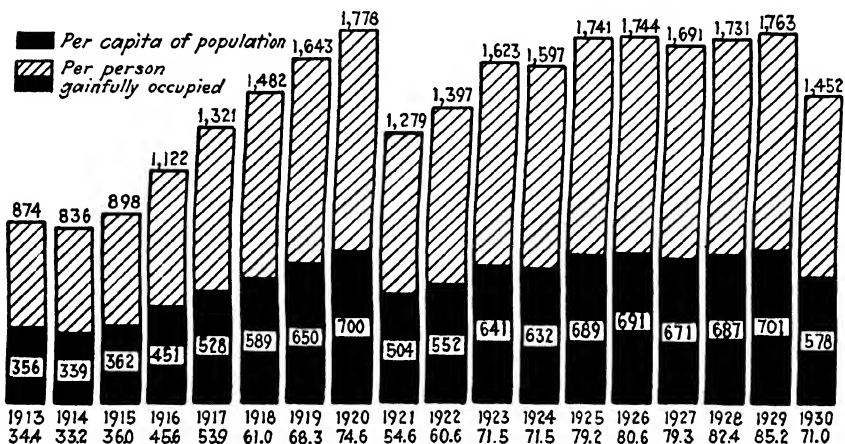


CHART 6.—National income of the United States (from 1913 to 1930) (in current dollars per capita and per worker). (*National Industrial Conference Board, Wall Chart Series, No. 281, June, 1932.*) Total national income in billion dollars shown under date. Sources: United States Bureau of the Census, National Bureau of Economic Research, and National Industrial Conference Board.

The term "National Income" is the aggregate value of all commodities produced and services rendered to which a price is commonly attached, and is equivalent to the sum of the personal income received by all individuals in the country, plus business savings.

The term "Gainful Workers" means all persons ten years old and over who usually follow a gainful occupation, even though they may not have been actually employed at the time they were so reported. It does not include women doing housework in their own homes, without wages, and having no other employment, and children working at home, merely on general household work, on chores, or at odd times on other work.

Professor Walter W. Stewart made a study of the physical volume of production for the thirty years between 1890 and 1919. He prepared a set of index numbers, using the average production of the years from 1911 to 1913 as the base. According to his index numbers, our physical production of 1919 was triple that of 1890 and double that of 1900, whereas our population did not quite double itself from 1890 to 1920.<sup>1</sup> This increase in economic production was the physical basis of our national prosperity, of which rising standards of living afforded superficial indications.

A similar picture was drawn by the Director of the Division of Research and Statistics of the Federal Reserve Board who wrote as follows, just before the economic depression of 1929 to 1933.

<sup>1</sup> STEWART, W. W., "An Index Number of Production," *American Economic Review*, p. 68, March, 1921.

From 1899 to 1919 the physical volume of production of farms, factories, mines, and railroads of the United States increased by 140 per cent, while population grew by only a little over 50 per cent. Thus production per capita of population is now nearly 60 per cent greater than it was in the final years of the nineteenth century.

The volume of output for each worker engaged directly in production has increased since the beginning of the century at an even more rapid rate than that of production per capita of population. Output per person engaged in production has increased by 80 per cent as contrasted to 60 per cent of gain per capita of population.<sup>1</sup>

**15. Occupational Distribution of Increased Production.**—This rapid increase in physical production was not the same in all occupations. The qualitative aspect of the problem is as interesting as its mere quantitative side. Our great increase of production in the first quarter of the present century was more pronounced in industry than in farming, in spite of the war and postwar increase in agricultural surpluses.

Chart 7A, General Trends of Production and Population, illustrates the growth of physical production in the United States from 1899 to 1924. It will be seen that agricultural production and population increased at about the same rate. On the other hand, the physical product of our mines and factories increased far more rapidly than our population or our agricultural production.

Chart 7B, Value Production per Capita of Population, shows the increase in our national production in value, rather than in physical product. The per capita product in mining, agriculture, and manufacturing for the various years has been expressed in dollars of a constant purchasing power.

It will be noted that the per capita value of agricultural production actually decreased during the first quarter of the present century, whereas the per capita value of the products of our mines and factories just about doubled. This increasing industrialization of the United States is as important to students of labor problems as is our general increase in total production. Charts 7A and 7B are on the next page.

**16. New Industrial Revolution in the United States.**—The table on page 95 presents by indices the growth of manufactures during the first quarter of the present century. It will be noted that physical output increased fairly steadily except for a drop in 1921, a period of industrial depression. There was a correlation between physical output and number of persons engaged in manufacturing until recent years. But in the four years from 1923 to 1927 physical output increased, in spite of the fact that the total number of persons engaged in manufacture declined. Although stable from 1899 to 1919, output per worker

<sup>1</sup> THOMAS, W., "The Economic Significance of the Increased Efficiency of American Industry," *American Economic Review*, p. 122, Supplement, March, 1928.

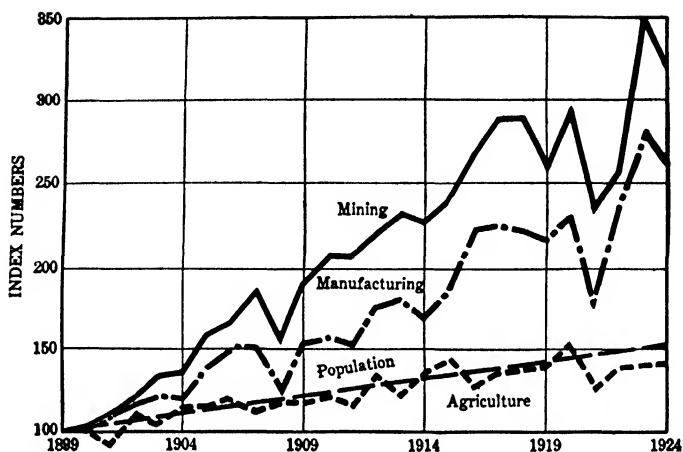


CHART 7A.—Physical production and population (1899 to 1924) (base—level of 1899 = 100 per cent). (Reproduced by courtesy of National Industrial Conference Board from *Road Maps of Industry*. Data for changes in physical volume of production are drawn from the *Review of Economic Statistics of the Harvard Economic Service* and population growth is calculated from U. S. Census figures.)

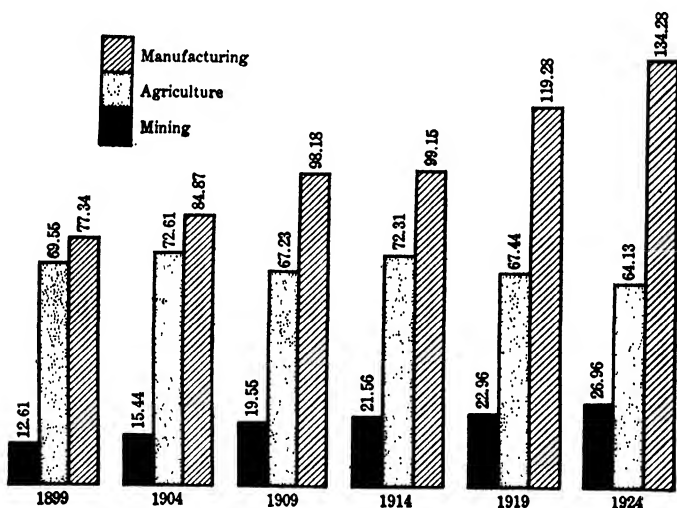


CHART 7B.—Value production per capita (1899 to 1924) (in dollars of 1914 purchasing power). (Reproduced by courtesy of National Industrial Conference Board from *Road Maps of Industry*. Value of agricultural products is taken from *Agricultural Year Book*, U. S. Department of Agriculture, value of mineral products from U. S. Geological Survey, Department of the Interior; and value of manufactured products from *Census of Manufacturers*, U. S. Department of Commerce.)



GROWTH OF MANUFACTURES BY CENSUS YEARS, 1899 TO 1925<sup>1</sup>  
(Index numbers, 1899 = 100)

	Quantity of output	Number of persons engaged	Output per worker	Primary horse-power installed
1899	100	100	100	100
1904	122	117	104	134
1909	159	145	110	185
1914	169	156	108	222
1919	214	204	104	292
1921	170	158	107	
1923	261	197	132	330
1924	275	187	147	356
1927 (estimated)	280-3	182-6	151-5	

<sup>1</sup> THOMAS, W., "The Economic Significance of the Increased Efficiency of American Industry," *American Economic Review*, p. 128, Supplement, March, 1928.

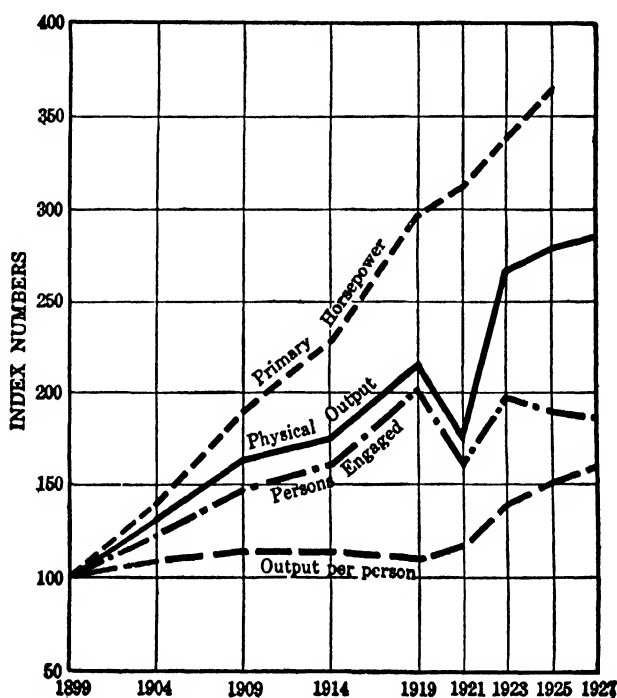


CHART 8.—Growth of manufactures (1899 to 1925) (base—level of 1899 = 100 per cent). (Reproduced by permission from W. Thomas, "The Economic Significance of the Increased Efficiency of American Industry" in the *American Economic Review*, p. 127, Supplement, March, 1928.) (See table above.)

increased enormously, perhaps by 50 per cent, in the following eight years. In the last place, the steady increase of power was as evident as it was significant. It affords an explanation of our great increase in industrial productivity before the recent depression. It also explains our growing technological unemployment, even before the cyclical unemployment from 1929 to 1933.

Increased productivity of manufactures continued until the great economic depression of 1929 to 1933. Although the index of persons engaged remained stable or declined slightly from 1923 to 1929, that of output per worker rose by about 20 per cent during this period. The following table tells the same story for the short period 1923 to 1929 as the previous table did for the longer and earlier period from 1899 to 1927.

INDEX OF PRODUCTIVITY IN MANUFACTURES (1923 TO 1929)<sup>1</sup>  
(1919 = 100)

Year	Persons engaged	Volume of production	Output per person
1923	96.3	122.0	126.7
1924	88.9	114.1	128.4
1925	92.4	127.9	138.3
1926	94.0	131.4	139.8
1927	92.4	128.7	139.3
1928 (preliminary)	90.9	135.9	149.5
1929 (preliminary)	94.5	144.7	153.1

<sup>1</sup> JOY, ARYNESS, "Index of Production of Manufactures Derived from Census Data, 1927," *Journal of the American Statistical Association*, vol. 25, n. s., p. 457, December, 1930.

This increased mechanization of industry and the accompanying increase of total output and per worker output in industry before the great depression have been termed the "new industrial revolution" in the United States. It was described as follows by one of the first economists to stress its significance.

There is taking place in the United States today a new industrial revolution which may far exceed in economic importance that older industrial revolution ushered in by the series of mechanical inventions which occurred in England in the last quarter of the eighteenth century, and which eventually transformed English industrial, political, and social life. Many people today are aware of the fact that great improvements in machinery, processes, management, and output are taking place; but, except for a few magazine articles from time to time, very little has been done to express this advance in productive efficiency in comprehensive terms. Some people have hesitated to accept as typical of industrial production as a whole the surprising figures of improved output in particular plants or establishments. And yet, even when we deal in mass figures, the facts stand out clearly and unmistakably. We are at the present time experiencing

what is perhaps the most remarkable advance in productive efficiency in the history of the modern industrial system.<sup>1</sup>

**17. Decline in Physical Output during the Depression Years from 1929 to 1933.**—A comprehensive index of recent changes in production, prepared by Charles A. Bliss, was issued in 1934 by the National Bureau of Economic Research. It continues our story of physical production down through the period of the recent great depression. It supplements Kuznets's study of the national income from 1929 to 1932 by giving indices of physical output rather than income produced in value units.

The table given below contains an index of physical production as a whole, indices for specific occupational groups, and an index of population growth, for the years from 1927 to 1933, inclusive. Indices of total physical production and population are compared graphically in Chart 9 on page 98. Before 1929, production increased more rapidly than population, but, from 1929 to 1932, production decreased markedly, although population continued its normal increase.

CHANGES IN POPULATION AND IN THE PHYSICAL VOLUME OF PRODUCTION IN THE UNITED STATES (1927 TO 1933)<sup>1</sup>  
(1927 = 100)

Year	Population	Agriculture	Mining	Manu- facturing	Construc- tion	Total pro- duction
1927	100.0	100	100	100	100	100
1928	101.2	105	100	109	103	106
1929	102.2	103	109	116	97	110
1930	103.1	101	97	98	87	97
1931	103.9	106	82	83	74	86
1932	104.5	98	67	66	47	70
1933	105.2	94	72	74	34	73

<sup>1</sup> BLISS, CHARLES A., "Recent Changes in Production," National Bureau of Economic Research, *Bulletin* 51, p. 3, June 28, 1934.

The extent and severity of the recent great depression can be read in these indices of production, illustrated in Chart 9, which represent actual physical output in bushels of wheat and tons of steel, rather than in value units such as the dollar, which would require refinement because of the concurrent decrease in the general price level. Apparently, the total volume of physical production in 1932 was 30 per cent below its 1927 level and 36 per cent below its peak in 1929. Recovery, which had begun in 1932, is discernible in the index for 1933.

Of the four great occupational groups surveyed, changes in manufacturing and mining were fairly well in line with changes in total volume of production. The two extremes were agriculture, whose index of

<sup>1</sup> CLAGUE, E., "The Productivity of Labor," *Monthly Labor Review*, July, October, November, and December, 1926.

physical production remained disproportionately high, and construction work, whose index fell disproportionately low.

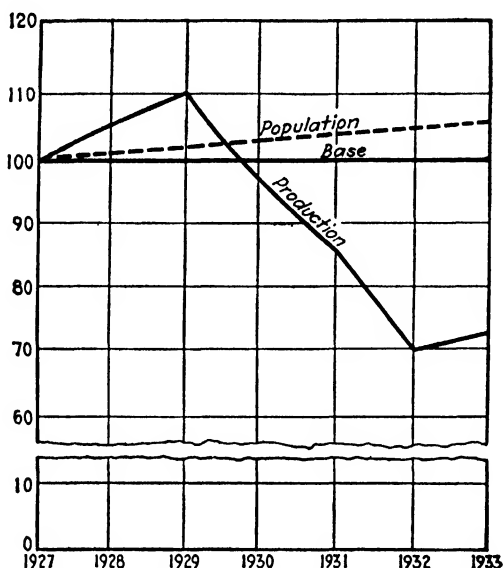


CHART 9.—Physical production and population (1927 to 1933) (1927 = 100). (Prepared from indices of Charles A. Bliss in "Recent Changes in Production," *National Bureau of Economic Research Bulletin* 51, June 28, 1934.)

See table on page 97.

**18. Increase in Industrial Productivity Rates during the Recent Depression.**—Changes in the productivity rate of labor during the depression years were as momentous as those in total volume of physical production. Indices of industrial productivity rates during the depression are given in the table on page 99.

The physical output of manufactures was only 57 per cent in 1932 and 64 per cent in 1933 of its 1929 level. Again, factory employment was only 61 per cent in 1932 and 66 per cent in 1933 of its 1929 level. However, in spite of a reduction in hours per week actually worked of 24 per cent between 1929 and 1933, output per wage earner employed fell by only 3 per cent in this same period. Output per man hour rose steadily throughout the depression and the year of recovery which followed it, reaching 121 per cent in 1932 and 127 per cent in 1933 of the 1929 level. The increased productivity of industry during earlier years of prosperity, described in earlier sections of this chapter as the new industrial revolution, continued throughout the following years of depression and recovery.

**19. Irregularity of Production.**—Although the United States has experienced a phenomenal increase in industrial production, this advance has gone forward at an irregular rate. Although in the long run our

prosperity has increased, it has been unevenly distributed over periods of time. Although the long-run or secular trend of production has been upward, there have been seasonal variations and cyclical depressions.

ESTIMATES OF CHANGES IN LABOR PRODUCTIVITY IN MANUFACTURING INDUSTRIES  
OF THE UNITED STATES (1929 TO 1933)<sup>1</sup>  
(1929 = 100)

(1) Year	(2) Index of physical output of manu- factures	(3) Factory employ- ment	(4) Output per wage earner employed (2) ÷ (3)	(5) Index of hours per week actually worked	(6) Man hours (3) × (4)	(7) Output per man hour (2) ÷ (6)
1929	100	100	100	100	100	100
1930	85	87	97	93	81	104
1931	72	74	97	87	64	112
1932	57	61	93	77	47	121
1933	64	66	97	76	50	127

<sup>1</sup> BLISS, CHARLES, "Recent Changes in Production," National Bureau of Economic Research, *Bulletin* 51, p. 6, June 28, 1934.

Although the general tendency of per capita real income has been upward, and although national prosperity has increased at a generally accelerated velocity, the movement has not been smooth or uninterrupted. The upward curve of production has had numerous indentations, which indicate either an absolute or a relative falling off of industrial activity.

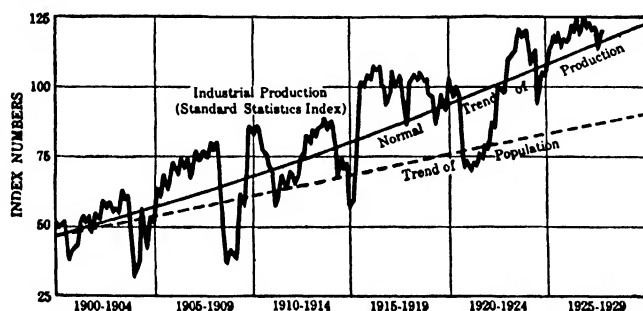


CHART 10.—Industrial production and population (1900 to 1929). (Reproduced by permission of Cambridge Associates, Boston.)

Chart 10, Industrial Production and Population, shows both the long-run or secular trend of production and the short-run or cyclical tendency. It portrays graphically that production increased more rapidly than population during the first generation of the present century, but that the upward trend was very irregular and characterized by repeated business cycles. This chart shows merely the beginnings of

the depression of 1929 to 1933, the full extent of which can be seen in Charts 9 and 11.

One of the greatest problems of labor is the stabilization of production, as well as its mere increase. Just as there is a maldistribution of prosperity among our population, so there is a maldistribution of industrial production over periods of time. The problem of the business cycle, therefore, is one of the greatest of all labor problems.

By the business cycle is meant the continuous series of changes in business activity, commonly characterized by periods of alternating

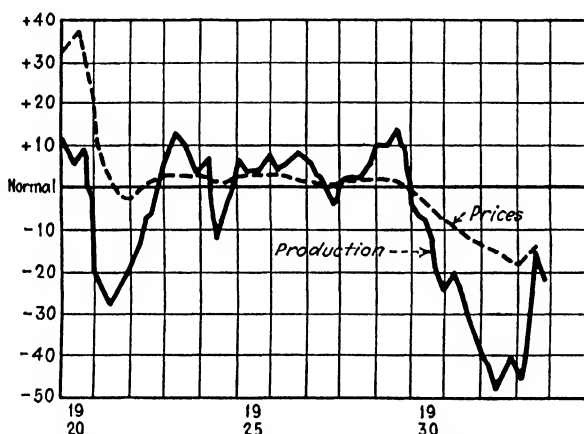


CHART 11.—Price level and production (1920 to 1933). (*Adapted from Curve of War Time Inflation and Post War Deflation by Leonard P. Ayres.*)

Compare "The Economies of Recovery" by Leonard P. Ayres," p. 17, The Macmillan Company.

prosperity and depression. The former is characterized by an increase in production and by a greater demand for labor, but the latter is characterized by a falling off of industrial output and a decrease of employment. A treatment of the nature, causes, effects, and theories of the business cycle, as well as numerous remedies proposed for it, is beyond the scope of this book, although its relationship to the stabilization of production must be mentioned. It will present itself again in Chap. X on unemployment.

**20. Industrial Production and the General Price Level.**—Cyclical movements in business activity are accompanied by—and in some part caused by—changes in the general level of prices. During a period of business recovery prices tend to advance, reaching a high point during the following period of prosperity, then declining again until they reach a relatively low level during the period of industrial depression. Industrial production likewise rises during periods of recovery, is high during periods of prosperity, but is low during depressions.

Although movements of the general price level are similar to those of industrial production during the various phases of the business cycle,

the curve of production has varied even more widely than that of the price level. In periods of prosperity, such as that from 1923 to 1929, the index of industrial production has been higher than that of the general price level. On the other hand, during periods of depression such as that of 1921 and that of 1929 to 1932, the curve of industrial production fell farther and faster than did that of the general price, rising again, however, more sharply in periods of recovery such as those of 1922 and 1933.

Chart 11 traces the movements of industrial production in relation to those of the general price level during and between the two postwar depressions.

**21. Artificial and Real Prosperity.**—It is important to distinguish between artificial and real prosperity, *i.e.*, between a stimulated prosperity and a natural prosperity. It will be seen that rising prices and increased production are not inseparable, although they have frequently gone hand in hand during the past century.

An artificial prosperity and an expanded industrial production may be stimulated by rising prices due to inflation by an overexpansion of the circulating media. Real prosperity is brought about by a natural increase of production and by greater industrial efficiency. Real economic prosperity is measured, not by quantities of money, but by an abundance of economic goods with which to gratify human wants. The prosperity of inflation is as deceiving as the hectic flush of an invalid, which indicates an approaching collapse rather than a healthy condition. Similarly, inflation is followed by deflation, and rising prices by falling prices.

The business cycle, as just stated, is one of the greatest of all labor problems. Rising prices necessitate an increase of money wages, if the real wages of workers are to be maintained at their former levels. Rising prices are accompanied by a pressure on standards of living. Falling prices may be accompanied by gains in real wages, if money wages fall less than costs of living, but this possible advantage is more than offset by the accompanying decrease in the volume of employment. Hence labor is threatened by both phases of the business cycle. A stabilization of prices and production would be as beneficial to employees as to their employers.

**22. Causal Factors in Increased Industrial Productivity of New Industrial Revolution.**—Increased productivity has resulted from both material and direct causes, such as power machinery and technological advances, and from immaterial and indirect causes, such as improved economic and social organization. Perhaps the secret of our increased productivity lies in the continued process of inventions and discoveries, the rapid increase of acquired knowledge, and the general progress of the arts.

Active adaptation has expressed itself in the invention of power machinery and the discovery of improved processes. Each is related to the other, and both are essential in an explanation of our present prosperity. In this increase and utilization of acquired knowledge making for a superior adaptation to the physical environment, the inventive genius of the American Yankee has been conspicuous. American labor-saving devices are famous the world over.

It is said that the productivity of the average American worker today is a score of times as great as that of a Greek or Roman slave. The latter worked with his bare hands, or at best with primitive tools, but the former is aided by the industrial giants of power machinery. A small flour mill in Periclean Athens could grind one or two barrels of flour a day, but one of the modern flour mills of Minneapolis turns out daily between fifteen and twenty thousand barrels of flour.

The invention of power machinery, as well as the improvement of industrial processes, has been continuous since the beginnings of the industrial revolution in England. However, a new industrial revolution seems to have taken place within the United States in the period from 1914 to 1929. Inability to adjust ourselves with sufficient speed and smoothness to these momentous changes was one outstanding cause of the great depression of 1929 to 1933.

Increased mechanization of industry has resulted in a further expansion in the size of the business unit and in a further intensification of division of labor. Large-scale manufacturing has been followed by large-scale management. Finally, mechanization and standardization reached their very acme in mass production, so well illustrated in the automobile industry. Indeed, mass production played a part in the new industrial revolution similar to that of the factory system in the early industrial revolution in England.

A word must be said also about recent developments in electricity and about the new marvels of industrial chemistry. Just as the noisy, dirty steam engine personified the early phases of the industrial revolution in England, so the quiet, electric motor and the clean hydroelectric turbine personify the silent power of the new industrial revolution in the United States. The cheap and efficient transmission of electricity is revolutionizing city and farm, the home and the office, manufacturing as well as transportation. It has been said that, whereas steam power was the enemy of the home, electric power is its friend. For illustration, electricity may make possible the future decentralization of industry, just as the steam engine was one cause of the past concentration of industry.

**23. Mechanical and Human Engineering.**—Both scientific management and industrial research were important causal factors in increasing industrial output per worker during the new industrial revolution in



the United States. Scientific management, as will be seen in Chap. XVII, involves the elimination of guesswork and rule-of-thumb. It seeks to decrease the wastes and to increase the productivity of labor. Scientific management involves also the standardization of materials and processes, and the improvement of location, layout, and industrial routine. It increases the functions of management by a conscious direction of industrial processes and a careful planning of the tasks of labor. Scientific management and large-scale production have been accompanied by industrial research which seeks constantly and consciously to improve industrial processes. By the utilization of scientific experimentation and industrial laboratories, new inventions are deliberately sought, instead of being accidentally discovered as in the past history of industry.

Human engineering is as important to industry as is mechanical engineering. Just as scientific management seeks increased production, so personnel administration seeks reduced stress and strain. The former concerns itself with the physical and mechanical relationships existing between the worker and his work, the latter with the human relationships between the employee and his employer and with the broader aspects of individual living and social welfare. The new concept of scientific management, unlike the old, embraces these contributions of personnel administration and these new functions of human engineering.

Some modification of past policies of both labor and management have already taken place. Whereas management appears to have learned the lesson that high wages are not necessarily high labor costs, and that low wages are not necessarily low labor costs, labor, in turn, has begun to realize that high wages are a matter of increased productivity, as well as one of redistribution. In spite of an increase in strikes and other labor disturbances accompanying the administration of the New Deal, it should be obvious to both labor and management that industrial conflicts are a great menace to economic prosperity. However, collective bargaining and a democratic organization of industry are essential to equality of opportunity, because legal equality, accompanied by glaring economic inequality, is both inconsistent and meaningless. The reconciliation of democracy and efficiency is as difficult in industry as in government. Nevertheless, both ideals are essential to social progress in industry.

**24. Adequacy of Our National Prosperity.**—The adequacy of our present prosperity and the ability of our national income to afford decent standards of living for our entire population are not difficult to determine. If one multiplies by four or five the per capita estimate of money income given in table on page 90, he will obtain a theoretical average family income. On an assumption of five individuals per family, it will be found to vary in current dollars from over \$1,600 in 1909 to over \$3,700 in 1927 and 1928. If a family of four rather than one of five is assumed,

which would be more nearly correct according to the 1930 census, the per family national income would vary from almost \$1,300 in 1909 to almost \$3,000 in 1927 and 1928. Such was the situation before the great recent depression, as revealed by the studies of our national income by Dr. King of the National Bureau of Economic Research.

In spite of yearly fluctuations in the size of the national income and in spite of changes in the purchasing power of the dollar, this theoretical average family income has generally been in excess of the money equivalent of a minimum standard of living for the same year. Hence it would seem that the national income of the United States for recent years has been adequate in size to abolish poverty, except during a very severe depression such as that from 1929 to 1933. However, it is obvious that each family lives on its own actual income, be it large or small, and not on a mathematical average. No matter how correct it may be from a statistical viewpoint, the average per family national income cannot be drawn against to buy bread and butter.

The adequacy of our national income can be tested also by dividing it among all workers, rather than among all individuals or all families in our population. According to the figures of the National Industrial Conference Board, given on page 92, the national income per person gainfully employed increased in current dollars from \$874 in 1913 to \$1,731 in 1928 and \$1,763 in 1929. However, average annual earnings of employees normally employed were found by the same research organization to be about 20 per cent lower. In the former case the total national income was averaged among all gainfully employed workers, but in the latter case only total national wages were averaged among the same group.

In short, the national income of the United States generally has been large enough to permit a decent standard of living to be enjoyed by all workers, and even by all families under the assumption of one breadwinner per family of four or five. Our real national income was adequate, at least for the two decades between 1909 and 1929, even though it is highly desirable and practically possible to increase it still further. But it does not seem that the portion of our national income going in wages, large though it has been in the aggregate, is adequate to guarantee an American standard of living to all families of all workers, even in times of prosperity, to say nothing of periods of depression.

The average wage per family has been inadequate to permit the maintenance of an American standard of living on the basis of one breadwinner to each family. Hence the families of many wage earners have been living in poverty, or the wages of the head of the house have been supplemented by the earnings of women and children. These problems will be discussed in detail in the following chapters, but this analysis of

the national income attempts to lay some factual basis for subsequent discussions of problems of social well-being.

**25. Limitations of Present Prosperity.**—Perhaps a final word of caution is necessary. Although the equal division of the national income might temporarily raise all families out of what is now regarded as poverty, it would not permit the popularization of conspicuous consumption. Nor would it permit the multiplication of leisure time without some sacrifice of economic well-being. Of course, a sharing of work between the employed and the unemployed is merely a division of existing work and wages without any change in total hours of labor and total volume of product. In any event, the Utopian dream of certain visionaries from Brook Farm to technocracy that an equal division of the national income would permit all individuals to live in comparative luxury and leisure is neither logical in its economic theory nor correct in its economic facts.

Progressive standards of living are conditioned by constantly increased production. Although the repetition of this theme song of the present chapter may have become tedious to the reader, certain recent national experiments, designed to bring back prosperity by destroying wealth and by restricting production, afford eloquent testimony to the fact that it is still a controversial point, rather than a generally accepted axiom.

With continued mechanization and improved processes, industrial productivity may increase so rapidly that more goods than formerly can be turned out in spite of a reduction in the length of the working day. But at any given time and in a given state of the arts, economic well-being must choose between increased production and increased leisure or a judicious sharing of the two. As prosperity depends on production, so a decrease in production is a direct threat to national prosperity.

Economic well-being is a problem of maldistribution, as well as one of insufficient production. Inadequate standards of living result, not only from inefficient and wasteful methods of production, but also from glaring inequalities and inequities in distribution. Nevertheless, it does not follow that communism or absolute equality of wealth and income will promote prosperity. The equal division of the national income was suggested merely to obtain a theoretical average, per capita, per family, or per worker, in order to test the adequacy of our national income to maintain what is regarded at any given time as a decent standard of living.

Although the institution of private property has permitted the perpetuation of economic inequalities, it has acted also as a spur to increased productivity. Rash changes in distribution, which savor of confiscation, might result in so great a decrease in the national income that a lowering, rather than an increase, in standards of living might take

place. The division of our national income and the problem of economic inequality will be discussed in the next chapter. Our present problem has been merely the productivity of labor and growth of our national income.

**26. Summary.**—Prosperity is a relative term and an economic ideal. It may be defined as an abundance of economic commodities and services. Judged by a comparison with other countries, the United States may be termed a prosperous nation. In spite of the recent depression, the long-run trend has been toward increased national prosperity.

The best measures of national prosperity are our wealth and income. Wealth represents the stock of economic goods in existence at any given time, and income the flow of commodities and services over a period of time. Wealth and income are usually expressed in terms of money, which is a good measure of value at any given time but an inadequate measure of value over a period of time. Hence real income or wealth must be distinguished from the current monetary expressions of income or wealth. Again, wealth and income must be refined in terms of population changes. The best measures of relative prosperity are per capita real wealth and per capita real income.

The National Bureau of Economic Research has carefully studied the size, sources, and tendencies of the national income from 1909 to the present time. It has established the fact that our per capita real income was increasing during the two decades before 1929. The national income, excluding imputed revenue, in current dollars, increased from \$27,661,000,000 in 1909 to \$84,119,000,000 in 1928, or, expressed in terms of a constant, the dollar of 1913 purchasing power, from \$29,221,000,000 in 1909 to \$50,692,000,000 in 1928. The per capita income jumped from \$327 in 1909 to \$749 in 1928. In terms of the same constant, the dollar of 1913, this was an increase from \$346 in 1909 to \$452 in 1928. During the depression from 1929 to 1933 the national income, in current dollars produced, fell from \$83,032,000,000 in 1929 to \$39,365,000,000 in 1932 and, in current dollars paid out, from \$81,136,000,000 in 1929 to \$48,894,000,000 in 1932.

Studies of physical production of the United States indicate that it doubled in the first two decades of the present century or increased more than twice as rapidly as our population did. The increase in production was especially rapid in manufacturing and in the period from 1914 to 1929. The great depression of 1929 to 1932 resulted in a decrease of 36 per cent in our total physical production between these years.

Our great increase in production has not followed an even course but has reflected the fluctuations of the business cycle. Recent illustrations of decreases in industrial production were the minor depression of 1921 and the major depression of 1929 to 1933.

Economic prosperity is conditioned by an abundance of natural resources in proportion to population. It is further conditioned by the

state of the arts and by the intelligence and education of its people. In these respects the United States has been fortunate.

The recent industrial revolution in this country was responsible for our growth in national prosperity before 1929. In brief, this important movement involved the increased use of power resources, the increased mechanization of industry, the introduction of improved processes, mass production, and the decrease of waste by scientific management and by substituting consolidation for competition. An increased rate of industrial productivity continued through the depression of 1929 to 1933, in spite of a decreased volume of industrial production.

#### Collateral Reading

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#### Questions for Discussion

1. What do you understand by economic prosperity as a social ideal?
2. Distinguished between wealth and welfare.
3. Distinguish between wealth and income.
4. What evidence is there to show that the national wealth of the United States was increasing before 1929?

5. What factors make you skeptical of all estimates of national wealth?
6. Distinguish between real and monetary income.
7. What is the best measure of economic prosperity? Why?
8. What evidence is there to show that our national income was increasing before 1929? Indicate the necessary statistical refinements.
9. What happened to the national income produced and paid out from 1929 to 1932?
10. What do you understand by the recent industrial revolution in the United States? Is the term a fair one? Why or why not?
11. What do you regard as the basic factors in an explanation of the economic prosperity of the United States?
12. Why is the business cycle a serious labor problem?
13. How would you determine the adequacy of the national income to permit decent standards of living to be enjoyed by all families? What are your conclusions?
14. Distinguish between real and artificial prosperity.

#### Topics for Investigation

1. National wealth of the United States and that of other countries before the World War and after it.
2. National income of the United States and that of other countries before the World War and after it.
3. National income of the United States and other countries before and after the world depression of 1929 to 1933.
4. Methods used by the National Bureau of Economic Research in its investigation of our national income.
5. Increase in industrial production from 1914 to 1929.
6. Industrial production during the great depression.
7. Agricultural surpluses and the most economical disposition of them.
8. Prosperity and inflation.

## CHAPTER V

### DISTRIBUTION OF OUR NATIONAL INCOME

#### THE FACTS OF ECONOMIC INEQUALITY AND THE IDEAL OF EQUALITY OF OPPORTUNITY

**1. Platitudes and Realities.**—<sup>1</sup>“We hold these truths to be self-evident, that all men are created equal,” wrote Thomas Jefferson, author of the Declaration of Independence. Nevertheless, he was the owner of Negro slaves and far richer in worldly goods and intellectual accomplishments than most men of his time. In order to describe contemporary life more correctly, he should have qualified his statement somewhat as follows. “Limited political progress toward the ideal of equality before the law has been made by some sane, free, adult, male, white citizens possessed of certain property rights.” In short, all men were not born equal then; and they are not born equal today, despite sweeping generalities of many prominent politicians and statesmen.’

**2. Types of Inequality.**—<sup>1</sup>Inequalities may be divided into those which are biologic or inherent and those which are social or acquired. From a biologic point of view, no two individuals are born alike, for variation is the law of nature. Physical characteristics, such as color of skin, eyes, and hair, size and shape of features, strength and agility of muscles, clearness of sight and hearing, and soundness of vital organs, vary from individual to individual. Although the measurement of intelligence quotients is in its infancy, it is obvious that all individuals vary as to kind and degree of inherent mental ability. Although care of health and training of mind can do wonders, nature gives us all different starting points for the race of life. Hence equality in a biological sense is unthinkable.’

Social or acquired inequalities can be classified as political, legal, economic, and social, in a narrower sense of that term. Thus the abolition of taxation without representation and the development of universal suffrage illustrate political progress toward less inequalities in governmental rights and privileges. Progress from status to freedom of contract, as illustrated by the change from serfdom to free peasantry in Europe and the abolition of Negro slavery in this country, illustrates social progress toward reduced social inequality. Finally, the development of our public-school system and the increased number and proportion of boys and girls going through high school illustrate our recent advance toward greater educational equality of opportunity.

At the present time, the forces of social unrest are concentrated on economic inequalities, represented by glaring differences in industrial opportunity, in money income, and in the ownership and control of the wealth of the nation:

**3. Antiquity of Economic Inequality.**—Some causes of the concentration of wealth have been common to different countries and to various ages in the world's history. Thus a very interesting comparison might be drawn between American history toward the close of the nineteenth century and that of England toward the close of the eighteenth century. In both cases, industrialization was accompanied by the foundation of great fortunes from the establishment of large industries at home and from the extension of financial imperialism abroad. But in spite of increased national prosperity, as measured by increased production and wider markets, great economic inequalities, widespread social distress, and glaring poverty continued in both countries throughout these periods of so-called "national prosperity."

Economic inequality is older than modern industrialism, as illustrated by either England or the United States. It characterized the coming in of capitalism in the period of transition from medieval to modern history. For illustration, the discovery of the Americas was followed by conquest, colonization, and exploitation. Spanish *conquistadores* and English merchant princes made huge fortunes at the same time that the natives of America and Africa were enslaved and the miserable masses at home suffered untold deprivation and hardship.

The student of history will find that economic inequality antedates even capitalism. Almost the entire story of civilization is a painful record of the slow accumulation of national wealth by the labor of the many, accompanied by a concentration of control in the hands of the few. Medieval society was characterized by the social inequalities of serfdom and by numerous peasants' revolts against intolerable living and working conditions. Ancient civilizations, including "the glory that was Greece and the grandeur that was Rome," rested on an extensive system of slavery and the exploitation of the masses by the classes.<sup>1</sup> Numerous striking comparisons have been drawn between modern America and ancient Rome. Economic expansion in both cases was accompanied by growing inequalities in wealth. Individual poverty likewise persisted in spite of the growing national prosperity.

Although such comparisons are interesting, they are not scientific, because history never repeats itself in exactly the same way. Nevertheless, it is important that the student of labor problems possesses some historical perspective. Man's inhumanity toward man is as old as, or even older than, any written records. However, it is probably less now than ever before. On the other hand, this evidence of progress should not lull us into a passive acceptance of modern exploitation and



inequality, for it is less understandable in an age of enlightenment than in one of ignorance, and it is less excusable in a surplus economy of plenty than in a deficit economy of want!

**4. Our National Prosperity Honeycombed with Economic Inequality and Industrial Insecurity.**—The last chapter attempted to appraise the national wealth and income of the United States; it stressed our increasing productivity. This chapter will consider the division of our national wealth and the distribution of our national income among the people of this rich country. It will be seen that national prosperity has not guaranteed individual prosperity because of the persistence of economic inequality and industrial insecurity. Economic inequality will be treated in the present chapter and industrial insecurity in Chaps. X and XI.

'Great riches and glaring wants have existed side by side in democratic America. Poverty has persisted in spite of the increased productivity of industry. Periods of prosperity have been succeeded by serious depressions as the business cycle has run its seemingly endless course. In short, American prosperity has been confined to certain groups and to certain periods!

Money wages, and even real wages, have been higher in the United States than in most European countries. On the other hand, social insurance is very common abroad, where the worker enjoys greater industrial security than the American worker. The lower wages of European workers are ameliorated considerably by their relatively greater industrial security, due to the wider prevalence of social insurance of various kinds.

**5. Present Industrial Unrest Caused by Economic Inequality and Industrial Insecurity.**—A considerable amount of social unrest can be traced directly to the striking economic inequalities among various groups in American society and to the distressing industrial insecurity of our workers.

Conservative trade unionists accept capitalism and the wage system, but they have strenuously attempted to raise wages by various weapons of collective bargaining. Socialists and syndicalists, however, contend that glaring economic inequalities will always persist as long as our present capitalistic system endures. Consequently, they seek the elimination of capitalism, many socialists by evolutionary and parliamentary methods, and most syndicalists by revolutionary and violent action.

In spite of the terrible experiences of the great depression of 1929 to 1933, conservative thinkers are pleading for a return to "rugged individualism." From the opposite extreme comes a demand for the almost complete socialization of industry and a more nearly equal division of the national wealth and income. Between "economic Bourbons,"

who have learned nothing and forgotten nothing, and extreme radicals, who are "willing to try anything once," are the middle-of-the-path liberals, who hailed the philosophy of the New Deal as a progressive and constructive social revolution toward decreased economic inequality and increased industrial security.

Such critics of our glaring economic inequalities believe that capitalism should be reformed but not destroyed. They would retain individual enterprise and the institution of private property, but they would rigorously restrict the right of inheritance and vigorously apply the principle of progression in taxation. Heavy death duties on large estates and heavy surtaxes on large incomes would be scaled in such fashion as to reduce, but not to eliminate completely, economic inequalities.

**6. Unequal Division of Our National Wealth.**—In studying economic inequality, or any other social problem, it is prudent and scientific to get the facts in the case before generalizing. Therefore, let us first see how the great wealth and income of the United States are divided among our population and among the various factors of production, after which some discussion of the causes and effects of such a situation will be in order, if a serious problem of economic inequality is revealed by these statistics of distribution.

One of the first thorough analyses of the division of the national wealth of the United States was that made by Dr. W. I. King in 1910. His conclusions were based on a survey of decedents' estates over a period of years in two states which were selected as fairly typical of the East and West, *viz.*, Massachusetts and Wisconsin.

Dr. King found that the poor group, *i.e.*, those who left little or no wealth, representing estates under \$1,000, consisted of 65 per cent of the total population and owned but 5 per cent of the wealth of the nation. At the opposite extreme were wealthy individuals whose estates were in excess of \$40,000. Although comprising only 2 per cent of the total population, they owned 60 per cent of the wealth of the nation.<sup>1</sup>

A more recent statement of Dr. King described the situation in 1927 as follows:<sup>2</sup>

The "rich," owning \$50,000 or more of wealth, 2 per cent of the people, own 40 per cent of the total wealth of the country.

The "middle class," owning from \$3,500 to \$50,000 of wealth, 33 per cent of the people, own 45 per cent of the total wealth of the country.

The "poor," owning less than \$3,500 of wealth, 65 per cent of the people, own 15 per cent of the wealth of the country.

This unequal division of our national wealth is pictured in Charts 12A and 12B.

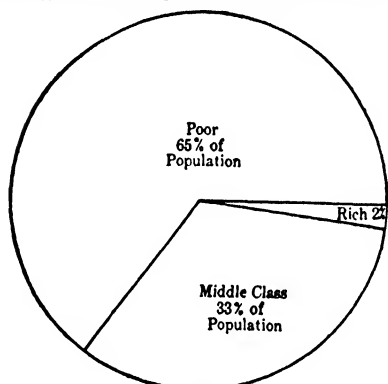
<sup>1</sup> KING, W. I., "Wealth and Income of the People of the United States," p. 79.

<sup>2</sup> KING, W. I., "Wealth Distribution in Continental United States," *Journal of American Statistical Association*, June, 1927.

**7. Uneven Distribution of the National Income.**—The National Bureau of Economic Research investigated not only the growth of our national income, but also its distribution. Although this analysis was made over a decade ago, no more recent study of equal thoroughness is available.

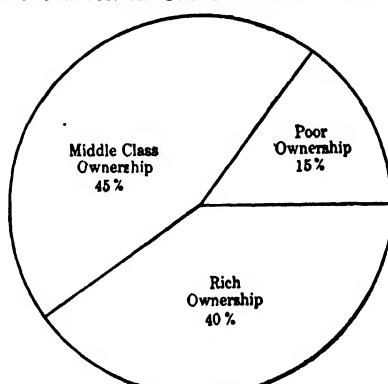
The National Bureau of Economic Research carefully studied the distribution of the national income in 1918. The income-tax returns for that year were of invaluable assistance, but the investigators were forced to supplement this information by original research among those individuals whose wages were too small to necessitate the filing of any income tax returns. The results are given on page 114.

**A. DIVISION OF POPULATION ACCORDING TO WEALTH IN UNITED STATES IN 1927**



According to 1927 estimates of Dr. King, rich group includes individuals owning \$50,000 or more wealth; the middle class includes individuals owning from \$3,500 to \$50,000 of wealth; and the poor include those individuals owning less than \$3,500 of wealth.

**B. DIVISION OF WEALTH ACCORDING TO POPULATION IN UNITED STATES IN 1927**



According to 1927 estimates of Dr. King rich individuals (2 per cent of population) own 40 per cent of the national wealth; middle classes (33 per cent of population) own 45 per cent of the national wealth; and poor individuals (65 per cent of population) own 15 per cent of the national wealth.

**CHART 12.—Unequal division of national wealth of the United States.**

In 1918, almost 39 per cent of all individuals receiving incomes had an annual income of less than \$1,000; over 72 per cent of all individuals receiving income had less than \$1,500; and about 86 per cent of all income receivers had less than \$2,000 a year income. Finally, this 86 per cent of all income receivers absorbed only 60 per cent of the total national income, a disproportionately small share.

On the other hand, the most prosperous 1 per cent of those receiving incomes were receiving 14 per cent of the national income, the most prosperous 5 per cent were receiving nearly 26 per cent, the most prosperous 10 per cent were receiving nearly 35 per cent, and the most prosperous 20 per cent of the total number of income receivers were receiving about 47 per cent of the total national income.

This study of income reveals in very striking fashion the existence of glaring economic inequalities. Although the general price level has

altered and the economic position of numerous individuals has changed, there is little reason for supposing that these figures for 1918 are not typical, and that the problem of economic inequality is less now than it was then.

#### DIVISION OF THE NATIONAL INCOME, 1918<sup>1</sup>

Income class, dollars	Number of persons	Per-centage	Amount of income	Per-centage
Under 0 <sup>2</sup> .....	200,000	0.5	\$ 125,000,000	0.2
0 to 500.....	1,827,554	4.9	685,287,806	1.2
500 to 1,000.....	12,530,670	33.4	9,818,678,617	16.9
1,000 to 1,500.....	12,498,120	33.3	15,295,790,534	26.4
1,500 to 2,000.....	5,222,067	13.9	8,917,648,335	15.4
2,000 to 3,000.....	3,065,024	8.2	7,314,412,994	12.6
3,000 to 5,000.....	1,383,167	3.7	5,174,090,777	8.9
5,000 to 10,000.....	587,824	1.6	3,937,183,313	6.8
10,000 to 25,000.....	192,062	0.5	2,808,290,063	4.9
25,000 to 50,000.....	41,119	0.1	1,398,785,687	2.4
50,000 to 100,000.....	14,011	0.04	951,529,576	1.6
100,000 to 200,000.....	4,945	0.01	671,565,821	1.2
200,000 to 500,000.....	1,976	0.005	570,019,200	0.98
500,000 to 1,000,000.....	369	0.001	220,120,399	0.38
1,000,000 and over.....	152	0.0004	316,319,219	0.55
Totals.....	37,569,060	100	\$57,954,722,341	100

<sup>1</sup> National Bureau of Economic Research, "Income in the United States," pp. 136 and 137.

<sup>2</sup> This group represents those who reported net losses for the year 1918.

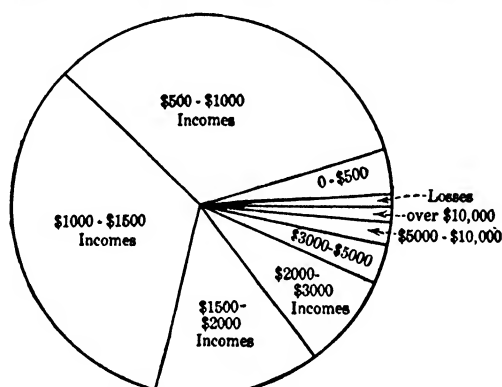


CHART 13.—Distribution of national income.

Division of all income receivers according to size of income, according to estimates of National Bureau of Economic Research for 1918. See table above.

These findings indicate that, while our national income was fairly large and increasing in size, it was divided among the people of the United States in a very unequal manner. They show that the maintenance of comfortable standards of living is a problem of maldistribution as well

as one of insufficient production. Individual prosperity and national welfare are conditioned not only by the existence of an adequate national income, but also by its more equitable distribution.

Chart 13 shows the unequal distribution of our national income, as revealed by this study of the National Bureau of Economic Research for 1918 (see opposite page).

The annual reports of the Treasury Department of the Federal government give information concerning incomes of those individuals and corporations making returns under the Federal income-tax law of each year. The table below gives the distribution of individual

INDIVIDUAL INCOME-TAX RETURNS IN 1928

	Number of individuals	Percentage	Amount of income	Percentage
Under \$1,000.....	111,123	2.8	\$ 64,000,000	0.3
\$1,000 and under \$2,000.....	918,447	22.9	1,527,000,000	6.1
\$2,000 and under \$3,000.....	837,781	20.9	2,031,000,000	8.1
\$3,000 and under \$5,000.....	1,192,613	29.8	4,648,000,000	18.6
\$5,000 and under \$10,000.....	628,766	15.7	4,282,000,000	17.1
\$10,000 and under \$25,000.....	270,889	6.8	4,038,000,000	16.1
\$25,000 and under \$50,000.....	68,048	1.7	2,326,000,000	9.3
\$50,000 and under \$100,000....	27,207	0.7	1,858,000,000	7.4
\$100,000 and under \$150,000...	7,049	0.2	850,000,000	3.4
\$150,000 and under \$300,000...	5,678	0.1	1,157,000,000	4.6
\$300,000 and under \$500,000...	1,756	0.04	664,000,000	2.7
\$500,000 and under \$1,000,000.	983	0.03	671,000,000	2.7
\$1,000,000 and over.....	511	0.01	1,109,000,000	4.4
Total.....	4,070,851	100.0	\$25,225,000,000	100.0

incomes for 1928. That year was selected because it was one of national prosperity and the latest year before the great depression of 1929 to 1933.

In 1928, slightly over 4 million individuals, out of a group of from 40 to 50 million gainfully employed individuals, filed a tax return which was compulsory for married people receiving over \$3,500 a year and single people receiving more than \$1,500. In 1928, a very prosperous year, about three-quarters of all gainfully employed individuals had incomes below this modest minimum or evaded the law.

Within this relatively small group of individuals who filed income tax returns for 1928, over a million, or about 25 per cent of the entire group, reported incomes under \$2,000; almost two million, or almost 50 per cent, reported incomes under \$3,000; and over three million, or over 75 per cent, reported incomes under \$5,000. The total incomes reported by these three million individuals, constituting three-fourths of the total

income-reporting group, constituted slightly less than one-third of the total amount of individual incomes reported.

At the other extreme were 511 individuals, as compared with only 152 in 1918, who reported an annual income for 1928 of \$1,000,000 or over; almost 1,500 individuals, as compared with 521 in 1918, who reported an annual income of \$500,000 or over; and about 16,000 individuals, as compared with 7,500 in 1918, who reported an annual income of \$100,000 and over for 1928. Although this last group constituted less than one-half of 1 per cent of the entire group of individual income payers,

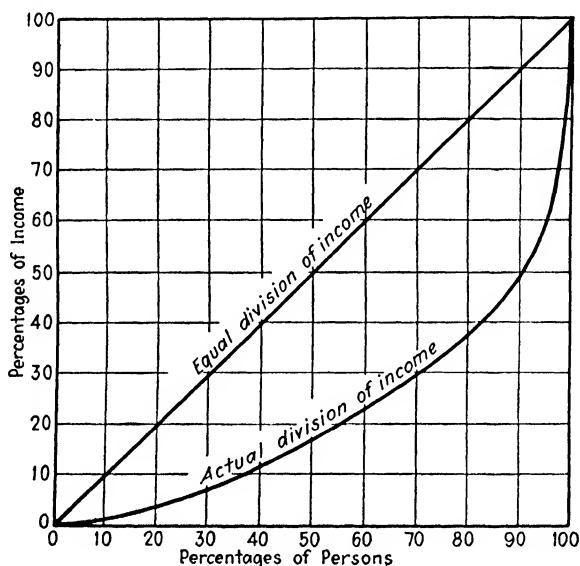


CHART 14.—Equal and actual division of that portion of the national income going to individuals subject to Federal income tax.

A Lorenz curve based on figures of the Treasury Department for income tax returns made by individuals for the year 1928. The bulge from the straight diagonal indicates the disproportionate distribution of incomes, even among those individuals whose incomes were sufficiently great to subject them to that tax. See table on page 115.

they received about 18 per cent of the total individual incomes for 1928, as reported to the Treasury Department. From this fairly authoritative but limited information, it would appear that the problem of economic inequality in 1928 was not less but more acute than in 1918.

Chart 14 above pictures by a Lorenz curve the disproportionate distribution of income among those individuals who reported under the Federal income-tax law for 1928.

**8. Unequal Diffusion of Property Incomes.**—Small incomes consist chiefly of wages and salaries. Large incomes consist chiefly of incomes from property rights, such as rent, interest, and profits. Investigation has shown that the portion of the national income going to property is fairly large and also that it is concentrated in a relatively few hands.

In short, not only is the total national income unequally distributed, but that portion of it going to property holders is particularly concentrated.

Chart 15 expresses the relative percentages of service and property incomes of the total incomes of individuals in different income groups. It will be noted that, in ascending the income groups, the role of property income becomes relatively, as well as absolutely, greater. In descending the income groups, the percentage of the total income represented by property becomes less and less until it is almost negligible. Service income constitutes almost the entire income within the lower economic

PROPERTY		INCOMES
1.22%	98.78%	\$2,000,000 and over
15.04%	94.46%	\$500,000 - \$1,000,000
15.04%	84.96%	\$100,000 - \$150,000
30.16%	69.84%	\$20,000 - \$40,000
41.34%	58.66%	\$5,000 - \$10,000
59.71%	40.29%	\$3,000 - \$5,000
78.18%	21.82%	\$2,000 - \$3,000
82.06%	17.93%	\$1,000 - \$2,000
SERVICE		INCOMES

CHART 15.—Relative sources of income of various income groups in the United States. (Adapted from O. F. Boucke, "Principles of Economics," vol. 2, p. 180.)

Professor Boucke's table is a condensation of the estimates given in "Statistics of Income," page 7 published in 1922 by the Commissioner of Internal Revenue of the United States. Professor Boucke has listed separately the percentages of profits, rentals, interest and investment income and dividends in profits, all of which items have been combined in the above table to give the total percentage of the income which appears to be representative of property rather than service income. The figures are based on income received in 1920.

groups. On the other hand, property income constitutes the chief source of income for those in the higher income groups. Although service incomes increase, as the income scale is ascended, their relative importance declines.

The entire situation is probably more acute than that represented by this tabular chart, for these figures represent only those groups of individuals making income-tax returns. Those individuals not making income-tax returns are excluded entirely. This excluded group, for the most part, is propertyless.

**9. Shares in Distribution.**—<sup>1</sup>Economists speak of the following four factors in production: land, labor, capital, and business enterprise. The share in distribution which goes to each of these factors is rent, wages, interest, and profits, respectively. Distribution is merely a valuation or a pricing of the factors of production. The rate of return on each of these factors is determined by its relative demand and supply forces<sup>2</sup>

In a new country, rents are low because the supply of land is abundant as compared with that of labor and capital. In an older and more densely populated country, rent absorbs a greater portion of the national income. In any given time and place, the rent which a piece of land yields its owner is conditioned by the relative scarcity, desirability of location, and degree of fertility of that type of land. Such a statement may be a partial explanation of rent, but it does not justify it, for it assumes the existence of private-property rights in land.

'The indirect or roundabout method of production is first to create capital and then to produce consumption goods with the aid of this capital. The industrial revolution increased the roundaboutness of production and intensified the importance of capital. The supply of the latter depends, on the one hand, on the rate of productivity and, on the other hand, on the degree of thrift and saving. A choice must be made between present and future goods, and this choice is reflected each year in the ratio between capital goods and consumption goods in the national income.' An individual may spend his income or he may invest it, directly or indirectly, in some productive enterprise. The interest rate depends on the relative demand for and supply of capital. The justification of interest payment, however, again assumes the individual ownership and saving of capital.

'Profits represent an uncertain and residual share in the process of distribution. They arise from a multiplicity of causes, such as changes in prices and fluctuations in demand. They originate out of the present system of individual enterprise and in the dynamic character of modern economic life. The justification of profits under our present economic system lies in the assumption of business responsibilities and financial risks of production by individual enterprisers and captains of industry.'

**10. Earned and Unearned Income.**—Attempts have been made to classify these shares in distribution as either earned or unearned incomes. Wages are generally the result of labor and human effort. Hence they are commonly regarded as constituting earned incomes. 'Inasmuch as land is a free gift of nature, rent has been attacked as an unearned income. In profits there seem to be both earned and unearned elements. Monopoly profits, however, may be antisocial and represent an unearned element.'

'If capital is the result of saving, interest may be justified as earned income by those individuals who do the saving.' Critics of the present economic system, however, argue that such is frequently not the case. Individuals who have inherited large fortunes may live luxuriously on the interest from their investments and practice very little abstinence. On the other hand, low-wage groups practice great abstinence but receive little or no interest.



'Although some large fortunes have originated from fortuitous circumstances and even unsocial practices, the founding of many small property incomes required labor and abstinence. Some individuals worked hard and saved rigorously in order to accumulate the capital represented by stocks and bonds. Shall society limit the right to enjoy the result of past labor and abstinence and shall it interfere with the right to bequeath this accumulated wealth to its owners' children?' Again, an individual may have invested his wages in land, the private ownership of which society has condoned, and even protected, for centuries. Shall this income from land be called unearned, and should the government attempt to appropriate this rent or any portion of it?

Such questions bring us face to face with the entire theory of distribution and with comprehensive programs of taxation, including inheritance taxes, progressive income taxes, excess profits taxes, and the social absorption of the unearned increment from rising land values. However, our present aim is merely to point out the importance of the distinction between property and service incomes and some practical difficulties involved therein.

Although a complete and accurate distinction between earned and unearned incomes is difficult to carry out in a system of taxation, a rough separation of property and service shares is common, practical, and desirable. Again, the theory of ability to pay, carried out by the principle of progression, is now generally accepted in public finance. The application of the principle of progression taxes property more heavily than service shares. Finally, some unearned increments, chiefly inherited property, are being taxed more heavily and more generally than before.

**11. Trends of Shares of the National Income.**—Having outlined the four shares in distribution, let us see how great a portion of the national income goes to each. Our previous analysis of the distribution of the national income among individuals and economic classes must now be supplemented by an analysis of the distribution of the national income among shares in distribution, each one representing a claimant in the form of its corresponding factor in production.

The study of wealth and income by Dr. King<sup>1</sup> attempted to divide the national income into four parts representing the four shares in distribution, *viz.*, rent, interest, profits, and wages.

It was contended that the rent element, representing the income to land owners, rose steadily in the years from 1850 to 1910. Its percentage of the total national income, however, was fairly constant and constituted somewhat less than 10 per cent of the total. Although the rent share of the national income increased absolutely, it did not grow disproportionately. Thus Dr. King's study affords little proof of an

<sup>1</sup> KING, W. I., "Wealth and Income of the People of the United States."

assumed tendency of rent to absorb a constantly increasing share of the total national income, at least in the United States between 1850 and 1910.

Interest or the return from artificial capital increased in absolute amount as did all the other shares. Its percentage of the total national income varied during these 60 years from slightly over 10 per cent to slightly over 20 per cent. Although fluctuating more than rent, there was no permanent tendency of this share of the national income relatively to increase or to decrease. Although the supply of capital increased enormously, new demands for it were continuously experienced. Although interest rates varied from time to time and from place to place, the interest share of the total national incomes showed no long-run trend to decrease or to increase out of proportion to the other three shares.

Profits varied more than any other single share and fluctuated from a low point of 20 per cent of the total national income to a high point of 40 per cent. Although increasing in absolute amount, its relative portion of the total declined. Dr. King's study testified as to the fluctuating character of profit and also as to its downward trend in the United States between 1850 and 1910.

Economists have regarded profits as the uncertain and residual share. In a relatively new country, greater incentives must be offered to attract capital and business enterprise. As the country matures, some of these uncertainties disappear. High profits are no longer necessary to induce business enterprise. Again, it would seem that rising prices are favorable to profits, and a falling price level unfavorable to profits.

Dr. King's investigation of wages was based on the decennial census reports and the price studies of the U. S. Bureau of Labor. He found that wages varied from a little less than 40 per cent of the total national income to a little less than 60 per cent in the period between 1850 and 1910. The low point was in the first decade, *i.e.*, from 1850 to 1860. In the second decade, from 1860 to 1870, there was a rapid increase in the share of the national income which went to labor. In this period, wages jumped from less than 40 per cent of the total national income to approximately 50 per cent. From 1870 to 1890, there was a slow but steady increase to the high point of this study, when wages constituted about 55 per cent of the total national income. From 1890 to 1900, however, was a period of recession in which wages dropped back to about 45 per cent of the total national income, from which point they again began to rise until they reached almost 50 per cent in 1910.

Dr. King concluded that, for the entire period from 1850 to 1910, there was an increase of about 10 per cent of the total national income which went to labor. Wages increased relatively as well as absolutely during this entire period, according to this study. Both per capita real wages and labor's share of the total national income increased.

Hence the lot of the workers improved rather than retrograded in this period of 60 years.

The general tendencies of these four shares in our national income are illustrated in Charts 16A and 16B below. Chart 16A shows the

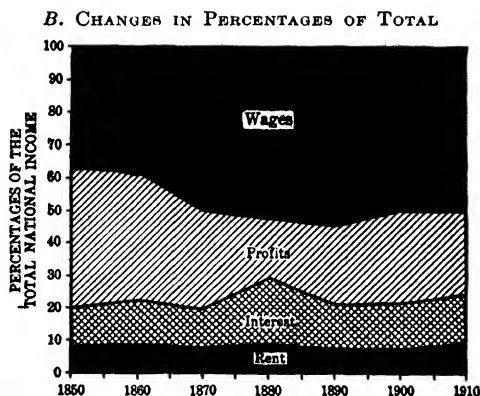
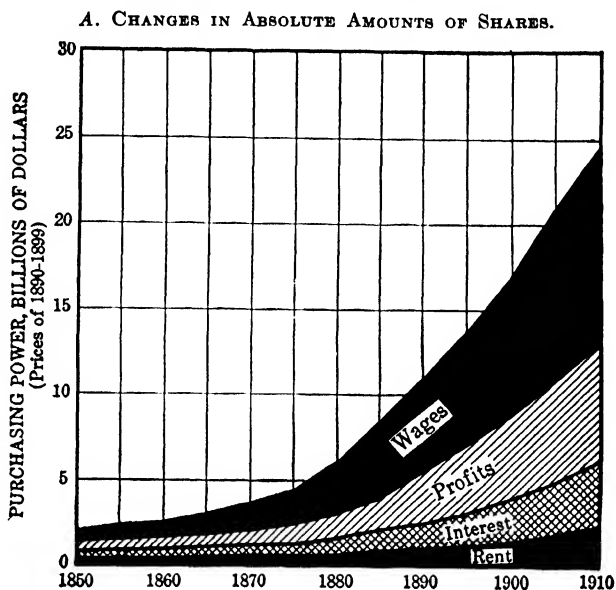


CHART 16.—Distribution of national income by its four shares (1850 to 1910). (W. L. King, "Wealth and Income of the People of the United States," p. 161. Reproduced by special permission of The Macmillan Company. Copyrighted, 1915.)

gains in absolute amount of the four shares of our national income and Chart 16B shows the changes in relative proportions. Only the long-run or secular trend is shown, for cyclical or temporary fluctuations have been omitted.

**12. Division of National Income between Property and Service Shares.**—It was previously noted that the share of the national income going to property was unequally distributed and that a relatively large portion of it was concentrated in a very few hands. Now we are ready to raise the question as to how large is the property share as a whole; *i.e.*, what percentage of the total national income do rent, interest, and profits combined absorb.

The analysis of Dr. King of the four shares in the national income from 1850 to 1910 was given in the previous section. A combination of rent, interest, and profits shares represents a rough approximation of the total property income. During these 60 years it absorbed about half the national income, varying from 60 per cent in the decade from 1850 to 1860 to 50 per cent in the next decade, to 45 per cent in the two decades from 1870 to 1890, the low point of the study, rising again in the next decade to about 55 per cent, but falling again to 50 per cent in 1910. As the total property share is the residuum of the total service share, the trends of property income are just the reverse of those of wages given in the previous section, in which this study by Dr. King was quoted.

DIVISION OF NATIONAL INCOME BETWEEN PROPERTY AND SERVICE SHARES  
(1914 to 1928)

Year	Percentage of national income comprised by wages, salaries, pensions, compensation, etc.	Percentage of national income to property (residual percentage)
1914	51.9	48.1
1915	52.0	48.0
1916	51.9	48.1
1917	50.3	49.7
1918	53.5	46.5
1919	53.7	46.3
1920	57.1	42.9
1921	57.1	42.9
1922	57.2	42.8
1923	57.7	42.3
1924	57.7	42.3
1925	57.2	42.8
1926	59.1	40.9
1927	58.8	41.2
1928	58.9	41.1

"Recent Social Trends," vol. 1, p. 230. Computed by Edwin F. Gay and Leo Wolman from estimates given by W. I. King in the "National Income and Its Purchasing Power."

A more recent study of the division of the national income between property and service shares by years from 1914 to 1928 brings this story down to the great depression of 1929 to 1933. Apparently, the fairly even division described by King in 1910 continued until the period of

war-time inflation, during which the property share lost and the service share gained by between 5 and 10 per cent, after which another period of stability ensued.

Looking backward over almost a century it would appear that the national income has been divided fairly evenly (not necessarily equitably) between total property shares and total service shares. Moreover, this division has been fairly constant, *i.e.*, subject to relatively few and slight changes. Property income lost relatively to service shares from 1850 to 1890, after which the division was fairly constant and equal, until the years from 1917 to 1920, when property shares again lost relatively to total service shares, after which the situation again remained fairly steady until the great depression of 1929 to 1933.

If these studies permit any generalization beyond the simple observation that the division of the national income between property and service shares has been fairly even and constant, it is that total property income has grown absolutely but declined relatively and that total service income, at least for the period from 1850 to 1928, increased both absolutely and relatively.

**13. Uneven Division of Increased Product of New Industrial Revolution.**—In order to determine to what extent, if at all, labor was participating in the recent increase in industrial productivity known as the new industrial revolution, let us consider the division between property and service shares, not of the total national income, but only of that portion of it created by industry. The following table contains this information:

PERCENTAGE THAT WAGES, SALARIES, OVERHEAD, AND RETURN TO CAPITAL ARE OF THE TOTAL VALUE ADDED BY MANUFACTURES, 1899 TO 1929

Year	Wages	Wages and salaries	Overhead and return to capital	Year	Wages	Wages and salaries	Overhead and return to capital
1899	41.6	49.5	50.5	1921	44.7	57.5	42.5
1904	41.5	50.6	49.4	1923	42.6	53.4	46.6
1909	40.2	51.2	48.8	1925	40.0	51.0	49.0
1914	41.3	54.1	45.9	1927	39.3	51.3	48.7
1919	42.2	53.8	46.2	1929	37.2	48.6	51.4

"Recent Social Changes," vol. 1, p. 231. Computed by Edwin F. Gay and Leo Wolman from U. S. Bureau of the Census, "Census of Manufactures."

According to this study, the percentage of total values created by manufactures which went to wages and salaries combined rose slowly from almost 50 per cent in 1899 to 54 per cent in 1914 and then rapidly to 57 per cent in 1921, whereas the residual percentage going to property in the form of overhead and return to capital decreased slowly from about 50 per cent in 1899 to about 46 per cent in 1914 and then to about 43

per cent in 1921. In other words, the division between service and property shares of that portion of the national income created by manufactures was somewhat similar to that division of the total national income. The same general tendency was in evidence between 1914 and 1921, *viz.*, a relative gain to service shares and a relative loss to property shares.

During the more recent years from 1921 to 1929, however, the opposite tendency was evident in the division of the national income produced by manufactures, although not in the division of the total national income. From 1921 to 1929, total service shares of the national income created by manufactures fell from 57.5 to 48.6 per cent, and the residual property shares increased from 42.5 to 51.4 per cent. In other words, while the division of the total national income between property and service shares had remained fairly constant between the minor depression of 1921 and the major depression of 1929 to 1933, the division of that portion of the national income created by manufactures had not remained stable but had altered considerably. The percentage of industrial income going to service shares declined and that percentage going to property shares increased. Of course, not only the total national income but also that part of it created by manufactures had increased. The loss in the service share of that portion of the national income created by manufactures was relative and not absolute.

The last chapter showed that the period from 1921 to 1929 was one of rapidly increasing industrial productivity. The following chapter will show that this period was also one of increasing wages—real wages as well as money wages. Nevertheless, it would seem that the portion of the national income created by manufactures which went to service shares declined relatively from 1921 to 1929. In short, it would appear that labor and service shares in general were enjoying the gains of the new industrial revolution, but in a disproportionately small degree. On the other hand, property owners were absorbing relatively, as well as absolutely, more of the enlarged national income resulting from increased industrial productivity.

Perhaps this tendency might properly be called a maldistribution of the national income, in that it was conducive to an overinvestment in industry and to an overexpansion of plant capacity, resulting from a reinvestment by industry and from individual saving, instead of a direct consumption of this increased income in the form of more and varied consumers' goods. Unprecedented increases in industrial productivity, as well as huge agricultural surpluses, could not be absorbed by domestic purchasing power spent for consumers' goods. Wages had not been increased proportionately and hours of work had not been reduced proportionately, so that commensurate power and opportunity to consume were not developed. Consequently, economic inequality per-

sisted and industrial unemployment increased, in spite of the great national prosperity before 1929.

Labor's failure to share proportionately in the increased industrial productivity between 1921 and 1929 has been suggested as a contributing factor to the great economic depression which followed. It has been stated that, in spite of increased real wages, workers in industry did not enjoy an increase proportionate to that of property. What was the situation in the next four years? Did property or service incomes fare worse in the great depression from 1929 to 1933?

**14. Labor's Burden Compared with That of Property during the Recent Great Depression.**—The study by Kuznets under the auspices of the National Bureau of Economic Research, referred to before, analyzes the national income from 1929 to 1932 by types of payment. His findings concerning relative changes in various distributive shares are given in the table at top of page 126.

This study by Dr. Kuznets<sup>1</sup> gives the shares of the national income paid out, both in current dollars and in percentages of 1929 payments. The division is threefold and sixfold into (1) total labor income, including (a) wages and (b) salaries; (2) total property income, including (a) dividends and (b) interest; and (3) total entrepreneurial income, including (a) net rents and royalties and (b) entrepreneurial withdrawals, which roughly correspond to individuals' profits.

Significant differences are apparent in the trends of these various shares between 1929 and 1932. The three broad groups without their subdivisions are pictured in Chart 17A. Whereas total labor income declined by 40 per cent and total entrepreneurial income by 45 per cent, total property income declined by only 30 per cent. Again, this decline in property income was delayed for a full year later than that in the other two shares.

Chart 17B pictures the trends of all six subdivisions. If total labor income through two of its three component shares is analyzed, it will be noted that salaries in selected industries declined by 40 per cent, but that wages in the same selected industries decreased by 60 per cent. This decline in wages was greater than that in total entrepreneurial income, and far greater than that in total property income. In other words, wages suffered more than any other share. Salaries, however, held up well during 1930, and in 1931 and 1932 they declined less than any other share except interest.

If total property shares are broken down into interest and dividend payments, some interesting differences and similarities come to light. Although dividend payments declined by over half from 1929 to 1932, the decrease in interest payments was almost negligible. Again, this

<sup>1</sup> KUZNETS, S., "National Income, 1929-1932," National Bureau of Economic Research, *Bulletin* 49, p. 7, June 7, 1934.

NATIONAL INCOME PAID OUT, BY TYPES OF PAYMENT<sup>1</sup>  
(1929 to 1932)

	Millions of dollars				Percentages of 1929			
	1929	1930	1931	1932	1929	1930	1931	1932
Salaries (selected industries) <sup>2</sup> ...	5,702	5,661	4,738	3,383	100.0	99.3	83.1	59.3
Wages (same as in line 1) <sup>3</sup> .....	17,179	14,210	10,542	6,840	100.0	82.7	61.4	39.8
Salaries or wages (all other industries).....	29,052	27,794	24,622	20,302	100.0	95.7	84.8	69.9
Total labor income <sup>4</sup> .....	52,793	48,582	40,896	31,533	100.0	92.0	77.5	59.7
Dividends.....	5,964	5,795	4,313	2,588	100.0	97.2	72.3	43.4
Interest.....	5,677	5,815	5,649	5,491	100.0	102.4	99.5	96.7
Total property income <sup>5</sup> .....	12,206	12,226	10,498	8,472	100.0	100.2	86.0	69.4
Net rents and royalties.....	4,116	3,475	2,752	1,865	100.0	84.4	66.9	45.3
Entrepreneurial withdrawals....	12,020	11,127	9,102	7,024	100.0	92.6	75.7	58.4
Total entrepreneurial income.	16,136	14,602	11,853	8,890	100.0	90.5	73.5	55.1
Total income paid out.....	81,136	75,410	63,247	48,894	100.0	92.9	78.0	60.3

<sup>1</sup> KUZNETS, S., "National Income, 1929 to 1932," National Bureau of Economic Research, *Bulletin* 49, p. 5, June 7, 1934.

<sup>2</sup> The grand totals in this table are obtained by an addition of the totals for each industrial field. The income subtotals by industrial fields are primarily in thousands of dollars, while the subtotals of gainfully engaged are usually in actual numbers. But the subtotals entered in this table are in millions of dollars (for income). These subtotals do not, therefore, add up exactly to the grand totals given.

<sup>3</sup> Includes mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation.

<sup>4</sup> Includes also employees' pensions and compensation for injury.

<sup>5</sup> Includes also net balance of international flow of property incomes.

PERCENTAGE DISTRIBUTION OF NATIONAL INCOME, BY TYPES OF PAYMENT<sup>1</sup>  
(1929 to 1932)

	Percentages of total income paid out				Percentages of total income produced			
	1929	1930	1931	1932	1929	1930	1931	1932
Salaries (selected industries) <sup>2</sup> ...	7.0	7.5	7.5	6.9	6.9	8.0	8.7	8.6
Wages (same as in line 1) <sup>2</sup> .....	21.2	18.8	16.7	14.0	20.7	20.2	19.3	17.4
Salaries or wages (all other industries).....	35.8	36.9	38.9	41.5	35.0	39.5	45.1	51.6
Total labor income <sup>3</sup> .....	65.1	64.4	64.7	64.5	63.6	69.1	74.8	80.1
Dividends.....	7.4	7.7	6.8	5.3	7.2	8.2	7.9	6.6
Interest.....	7.0	7.7	8.9	11.2	6.8	8.3	10.3	13.9
Total property income <sup>4</sup> .....	15.0	16.2	16.6	17.3	14.7	17.4	19.2	21.5
Net rents and royalties.....	5.1	4.6	4.4	3.8	5.0	4.9	5.0	4.7
Entrepreneurial withdrawals....	14.8	14.8	14.4	14.4	14.5	15.8	16.7	17.8
Total entrepreneurial income.	19.9	19.4	18.7	18.2	19.4	20.8	21.7	22.6
Total income paid out.....	100.0	100.0	100.0	100.0	97.7	107.2	115.7	124.2
Business savings.....	.....	.....	.....	.....	2.3	-7.2	-15.7	-24.2
Total income produced.....	.....	.....	.....	.....	100.0	100.0	100.0	100.0

<sup>1</sup> KUZNETS, S., "National Income, 1929 to 1932," National Bureau of Economic Research, *Bulletin* 49, p. 7, June 7, 1934.

<sup>2</sup> Includes mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation.

<sup>3</sup> Includes also employees' pensions and compensation for injury.

<sup>4</sup> Includes also net balance of international flow of property incomes.



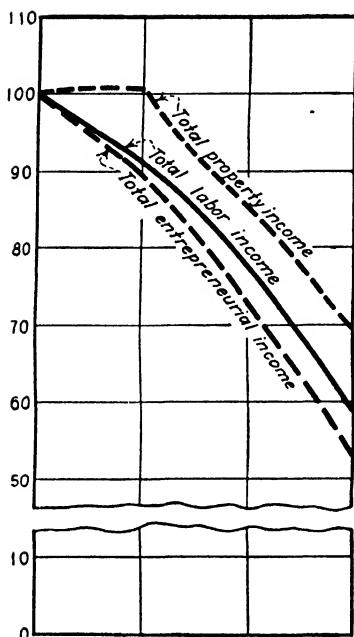


CHART 17A.

CHART 17A.—National income paid out by types of payment (1929 to 1932) (base—1929 level = 100 per cent). (Based on indices of Simon Kuznets, in "National Income, 1929-1932," National Bureau of Economic Research, Bulletin 49, June 7, 1934.)

See table on page 126.

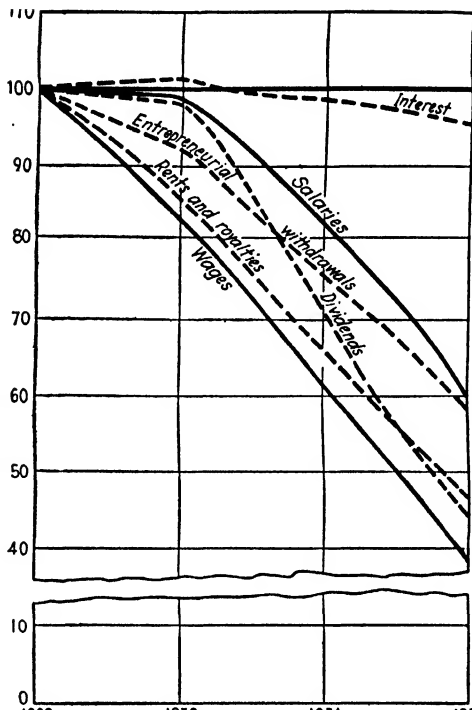


CHART 17B.

CHART 17B.—National income paid out by types of payment (1929 to 1932) (base—level of 1929 = 100 per cent). (Based on indices of Simon Kuznets, in "National Income, 1929-1932," National Bureau of Economic Research, Bulletin 49, June 7, 1934.)

See table on page 126.

7.6	8.5	9.8	12.0	Interest
7.4	7.7	6.8	5.3	Dividends
5.1	4.6	4.4	3.8	Rents and Royalties
14.8	14.8	14.4	14.4	Entrepreneurial Withdrawals
65.1	64.4	64.7	64.5	Total Labor Income
1929	1930	1931	1932	

CHART 17C.—National income paid out by types of payment (1929 to 1932) (base—total income of each year = 100 per cent). (Reproduced from Simon Kuznets, "National Income, 1929-1932," National Bureau of Economic Research Bulletin 49, June 7, 1934, p. 5.)

decline did not take place until after 1930, for which year dividend payments were only slightly lower than in 1929 and interest payments actually greater.

Chart 17C gives percentages, not of the 1929 year basis, but of total income for each year of each of these different shares.

This analysis of the distribution of the national income during the depression years from 1929 to 1932 demonstrates very decisively that labor shares, including wages and salaries, suffered far more than did property shares, including dividends and interest, although entrepreneurial shares suffered more than either. The share of the national income going to labor in 1932 was less than in 1929, even though the total national income had shrunk greatly in the meantime. On the other hand, that portion of the national income going to property was greater in 1932 than in 1929. Within the labor group, wages suffered far more than did salaries or even entrepreneurial income. Consequently, it seems fair to conclude that the recent great depression resulted not only in some redistribution of the national wealth and income among the people of the United States, but also in even greater economic inequality than had previously prevailed.

**15. Persistence of Economic Inequality.**—Economic inequality may be regarded as natural in ancient societies, characterized by caste systems and the institutions of slavery or serfdom. But the change from status to freedom of contract has not eliminated glaring economic inequalities. Indeed, the development of modern capitalism and industrialism has created new fortunes from commerce and manufacturing.

American millionaires and captains of industry dominate our present pecuniary civilization as did barons and landlords their own agrarian civilizations. Hence it has been contended that ancient aristocracy has merely been replaced by modern oligarchy or plutocracy, a military feudalism by a financial feudalism, and absentee landlordism by absentee capitalism.

The economic development of new countries has been characterized by dollar diplomacy and by the creation of huge fortunes from the ruthless exploitation of their natural resources, such as timber, coal, and oil. Later industrialization has been accompanied, likewise, by the emergency of railroad magnates, packing princes, beer barons, and match kings.

The exploitation of the United States under a system of individual enterprise and a philosophy of *laissez-faire* has been rapid but wasteful of both natural and human resources. It converted a virgin continent into an industrial empire, but all the children of all the people have not shared equally in their rich natural legacy. Our analysis of the ownership of the national wealth and the distribution of the national income of the United States has disclosed the fact that great economic inequalities

have continued in this country through periods of national prosperity and depression.

**16. Forces Making for Continued or Increased Economic Inequality.**

The capable student can easily discover for himself numerous specific causes of our great economic inequality and of the concentration of wealth into huge private fortunes. 'Among them would appear large governmental subsidies formerly granted to certain railroads and the capitalization by some public-service corporations of exclusive franchise rights previously given them.' However, it should be remembered that railroads and other public utilities were at first regarded as highly speculative ventures. New industries, if successful, are the sources of great profits and large fortunes. The early development of the railroads and other utilities, a generation or two ago, may be paralleled today by the more recent development of the airplane, automobile, telephone, radio, and motion-picture industries. 'Perhaps our dynamic and individualistic economy requires the incentive of large and immediate profits to attract capital and enterprise into new and risky fields.'

'Another source of great fortunes lies in our rapidly increasing land values, particularly in growing cities. The essential elements of success here have been sagacity and patience, rather than inventive genius or arduous productive effort.' This source of huge fortunes can be illustrated by the early purchase and the long-continued holding of land on and about Manhattan Island by John Jacob Astor and his descendants.

'Wars represent another source of private profit and economic inequality. Fortunes have been made from the possession or acquisition of certain commodities essential for military or civil consumption. Again, wars are generally accompanied by monetary inflation. Rising prices make possible profiteering by the few, while the great majority suffer from higher costs of living.'

'Speculation in commodity markets or stock exchanges has created large fortunes for a few successful individuals who have been peculiarly shrewd or fortunate. Sometimes they have resulted from such unsocial practices as cornering the market or manipulating prices in either direction.' Huge profits have been made also by financial promotion, sometimes of sound enterprises in which control has been secured, but sometimes by underwriting questionable ventures which have been unloaded on the gullible public. The United States does not permit a national lottery, but Wall Street has been a fairly acceptable substitute. A few high prizes are drawn occasionally which divert attention from the numerous blanks.

Industrial combinations and monopolies have increased economic inequality and created huge fortunes. Sometimes they have resulted from the economic benefits of large-scale production under a managerial genius, but sometimes from very evident or well-concealed combinations

in restraint of trade. The development of the trusts in the closing decades of the past century and the opening years of the present century resulted in the creation of huge fortunes in oil, steel, tobacco, aluminum, and numerous other commodities.

'The development of trustee devices has maintained the grip of the "dead hand" and continued from generation to generation some of these large fortunes.'

**17. Forces Reducing Economic Inequality.**—'A list of forces making for less economic inequality would comprise all those influences which tend to restrict or to negate the causes of concentration in the ownership of wealth just cited.' Among them would be more effective regulation of all large corporations, industrial combinations, and public utilities, better supervision of security issues and trading in them, the elimination of wars, inflation and the dizzy dance of the dollar, the social absorption of some or all of the unearned increment from socially created or increased land values, and the public conservation of natural resources.'

The development of property as a social trust, of profit sharing and labor copartnership, of increased cooperation, of more effective collective bargaining, and of all institutions and practices on behalf of the economically weaker elements in the community would tend to lessen economic inequality and the concentration of wealth. The extension of social-insurance schemes from workmen's compensation to include old-age pensions, sickness and unemployment insurance, as well as the promotion of thrift and saving, would lessen industrial insecurity, if not economic inequality. Again, the reduction of child labor and the increase of educational opportunity for all young persons in accordance with their abilities and needs would make for greater democracy—economic as well as social and political.

Taxation programs play a very important part in the reduction of economic inequality. The principle of progression can be applied to large incomes and to large estates. The payment of progressive death duties on large fortunes would tend to dissipate them after several generations.

Any such list of forces is neither final nor complete. The student should use it merely as a point of departure for his own independent thinking. He will recall from Chap. I the triangular graph, depicting the threefold approach to social problems of industry, one angle being that of the state through legislation, another that of organized labor through collective bargaining, another that of the liberal employer through experimental labor copartnership programs. In addition to these evolutionary approaches to problems of economic inequality and industrial maladjustments are revolutionary attacks on capitalism by various radical groups who are especially critical of economic inequality.

**18. Economic Effects of Economic Inequality.**—There are many reasons why less inequality of income is desirable. They may be classified arbitrarily, but conveniently, as economic, social, political, and philosophical arguments; this order will be followed in the present discussion.

'Beginning with the economic effects of inequality, it must be noted at the very outset that production is determined by effective demand rather than by potential desire. Economic demand may be defined as a desire which is accompanied by sufficient purchasing power to make itself felt. Only if incomes were evenly distributed throughout society could it truthfully be said that production is determined by the wants of all consumers. Under the present régime, glaring economic inequalities make it profitable for producers to satisfy the slightest whim of the wealthy and to ignore the pressing needs of the poor.'

'Demand, rather than desire, determines not only the character of production, but also the channels of exchange. Thus, during a recent famine in China, that country exported eggs to America. The needs and desires for food were greater in China, but the effective economic demand was greater in the United States. Similarly, generations ago famine-stricken Ireland exported grain to more prosperous England, in response to market demand rather than social needs.

'Among various economic groups within a nation, a similar situation exists. The rich consume delicacies while the poor lack the necessities of life. Pleasure yachts may be produced at a time when there is a serious housing shortage.' Thus the quantitative distribution of the national income determines the qualitative character of production.

'Many individuals who are not socialists accept their economic ideal of the production of necessities for all before luxuries for a few. Although this ideal requires the reduction of economic inequality, it does not necessitate complete economic equality or the collective ownership of the instruments of production. It is socialistic, but it is not socialism!

The principle of diminishing utility states that the enjoyment derived from the consumption of a particular economic good declines after a certain point has been reached in the consumption of increasing units of that good. The small boy eating hot cakes may have an almost unlimited capacity, but sooner or later the point of diminishing utility is reached. Likewise, an additional automobile has less want-satisfying power to its owner than the first.

'The wasteful operation of the principle of diminishing utility is mitigated to some extent by the great variety of economic goods which we now enjoy. When the utility of more clothes or another automobile becomes small, the wealthy individual can spend his income in other ways. Nevertheless, the dollar of the poor man will be spent for goods representing more utilities to him than the expenditure of the dollar of

the rich man, whose most pressing needs have already been met. Hence the more equitable distribution of purchasing power would result in an increase in consumption utilities without an increase in the national income.<sup>1</sup>

Expensive changes in fashion might be reduced, if the income of all consumers were more nearly equal. The demand for necessities is relatively stable. It can be anticipated with a smaller margin of error than can the demand for luxuries. Hence this change in the character of our national real income would lessen some of the wastes of our present individualistic economy. 'Economic inequality is charged not only with misdirection of production, but also with overinvestment and underconsumption.'<sup>2</sup> Hence it is viewed as an important causal factor in business depressions and the wide swings of the business cycle.

**19. Other Great Effects of Economic Inequality.**—Great differences in income are productive of social instability as well as economic waste. Inadequate wages result in subnormal standards of living. 'At the same time other individuals are indulging in luxurious leisure. Poverty and riches existing side by side have always been a fruitful cause of social unrest'. The palaces at Versailles were erected by peasants who lived in huts. In modern America, magnificent stables for horses and commodious kennels for dogs throw their shadows across the miserable houses in which human beings exist. Each city has both its spacious country clubs and its slums with crowded tenements.

'Economic inequality results also in social stratification and the formation of non-competing economic groups. Status represents a condition fixed by birth, as compared with freedom to choose one's own occupation. Although slavery, a caste system, and inherited titles do not exist in modern America, the inheritance of large fortunes permits the persistence of economic and social classes. For many individuals in the poorer classes equality of opportunity is a far-distant ideal.'

Economic inequality may have serious political effects. Large fortunes may result in the corruption of governmental machinery and in the exercise of an undue influence on public officials. The open or secret miscarriage of justice may result. A great national income and its flagrantly unequal distribution may convert a democracy into a plutocracy. Such was the evolution of ancient Rome.

'Till fares the land, to hastening ills a prey,  
Where wealth accumulates and men decay.'

There are also philosophical objections to inequality of income. On the basis of abstract justice why should one individual receive an enormous income and another a pitifully small one? Let us assume that both are economic producers and that each individual contributes to the national income according to his individual ability and opportunity.

Communists have adopted the slogan "From each according to his ability and to each according to his needs." Such a simple analysis of production and distribution affords an excellent ideal, but it is beset with numerous practical difficulties and objections. If one's income depends on the size of one's family, there is an economic incentive for the production of children rather than of economic goods. Professor Carver points out the danger of this "spawning" process in his "Essays in Social Justice." Nevertheless, the student of social problems must always keep in mind the fact that neither one's environment nor one's heredity is of his own making. Prince and peasant have merely been dropped into different social surroundings. The fact that one individual is born with an excellent physical constitution or with exceptional mental ability, whereas another individual is born with some physical defect or with feeble-mindedness, is no merit or fault of his own. The same observation can be made concerning different social heredities and different social positions into which one is born.<sup>4</sup>

**20. Conspicuous Consumption.**—It has been contended that the manner of consumption of one's income is as significant as its size and source. It is apparent that some large fortunes have been squandered and dissipated, while others have been put to good use!

Imitation is a powerful social force, and each social group looks longingly at the standard of living of the next higher income group. Sometimes, the standard which is indulged in by the so-called "social set" is as shallow as it is wasteful. Its purpose may be the mere display of wealth with the consequent inference of superiority. Economic success, demonstrated by ostentatious consumption, gratifies the same human instincts of self-assertion which were formerly satisfied only by military success on the field of battle!

Veblen termed the situation, which he thus described, the "conspicuous consumption" of the "leisure class." The possession of a given commodity or the consumption of a certain service may be indulged in not because of its utility to the consumer, but because of the social prestige which accompanies it. Thus a given individual may not enjoy automobile riding, but he may relish the exercise of walking; nevertheless, the possession of a limousine is an indication of prosperity. Going to the opera may gratify no love of music, but it does afford an opportunity to wear expensive clothing and jewelry. In this manner the tired business man may be considered one of the financial, if not the cultural, élite.

The elaborate menus of certain "exclusive" clubs and hotels today recall the conspicuous consumption of ancient Roman banquets. In the background of both pictures is the sinister shadow of the bread line and the gatherings of the unwashed masses in the city streets.

**21. Private Fortunes as Public Trusts.**—Mr. Carnegie in his "Gospel of Wealth" developed the ideal of great fortunes as public trusts. His

own life was simple and his tastes were frugal. He returned to society a large portion of his income in the form of free libraries. Mr. Rockefeller likewise has donated millions to educational work and to medical research.

Private fortunes as public trusts represent collective consumption on private initiative. It is difficult to overemphasize the social value of such wise donations. Society might not have done these things of its own accord.

Such a policy, however, has been criticized as undemocratic in spite of its generous motive and wise purpose. As it represents private philanthropy rather than public expenditure, it has been stigmatized as benevolent despotism or capitalistic feudalism. Such civic donations divert attention from the unsocial origins of some large fortunes in monopoly profits. All consumers have paid the bills in the purchases of these products, but they have not been permitted to say how the profits should be spent. Such have been the criticisms of rich men's philanthropy and the indictment of large fortunes as public trusts.

**22. Survival of the Fittest—a False Analogy.**—It is sometimes assumed that economic competition affords an analogy with the biological struggle for existence. It is further assumed that the force of natural selection results in the survival of the fittest in business and the elimination of the unfit, or, rather, their relegation to the poverty group. Such an analogy is incorrect and misleading. 'In the first place, "survival of the fittest" is a rather meaningless expression, because the fittest are merely those most in harmony with their environment. The fittest are not necessarily the best, *e.g.*, a frog rather than a horse in a marshy environment, a sinner rather than a saint in competition with unscrupulous rivals!

'In the second place, the biological struggle for existence is natural, and each individual or species tends to survive or perish according to the presence or absence of favorable traits. But social evolution has produced customs and laws which may be meritorious but which interfere with the operation of the principle of natural selection. Inheritance laws and the institution of private property place barriers between many individuals and a ruthless struggle for existence. Individuals may be supported in luxury and leisure who are unwilling to earn, or incapable of earning, their own living. On the other hand, many individuals enter the economic struggle with handicaps represented by the burden of poverty and other acquired inequalities. The economic struggle is neither natural nor fair.

The assumption of superiority on the part of a successful business man is not always justifiable because of the existence of numerous fortuitous circumstances. He may have been fortunate rather than sagacious. Again, individual ability should not be evaluated apart



from social purpose. 'Mere cleverness of itself is not sufficient to achieve or to warrant success. It must be exerted in a productive fashion.' Although economic society is competitive, the skill of the pickpocket or the strength of the highwayman is not rewarded but punished. Society has set up certain rules of the game and has attempted to eliminate some of the most predatory methods of achieving success, even in a highly competitive economy.

At the present time, there are numerous neutral or socially undesirable ways of making economic profits. It is difficult in a dynamic society for the forces of social control to keep abreast of changing conditions and to express themselves immediately in an adequate fashion. It takes time to arouse public opinion and to crystallize it into effective legislation. In the meantime, clever individuals may create fortunes in economically unproductive and socially undesirable ways. Illustrations are monopoly profits, gambling on the stock exchange, and speculation in real estate values. Economic success does not always measure accurately economic productivity along socially desirable lines.'

**23. Acquisition According to Productivity.**—Acquisition according to productivity should be regarded, not as a socialistic concept, but as an American ideal. It was stated simply by Captain John Smith of the Virginia colony when he said that only those gentlemen who worked should eat. In every primitive community there is little bread of idleness for a leisure class, practicing either vagrancy or conspicuous consumption. But with the transition from a deficit economy of pain to a surplus economy of pleasure, a leisure class develops.

'Although the prophets of ancient Israel inveighed against economic inequality and stigmatized reaping where one had not sown, the transition from a simple and personal economy to a complex and impersonal one has changed and enlarged the age-old problem of distributive justice. It is easy to say glibly "acquisition according to production," but to determine economic productivity and to measure it accurately are very difficult. Types and degrees of social desirability are still harder to fashion!'

It is difficult to answer the question as to what limits should be set to a man's ability to acquire wealth. It is impossible to measure the productive contribution of the discoverer of anaesthetics for surgical operations or of the inventor of the steam engine, the telephone, or the radio. One would hesitate to set any limits to the rewards of such scientists and inventors. Indeed, these individuals have rarely received compensation commensurate with their social or economic contributions. The real fortunes represented by such discoveries and inventions have often gone to financial promoters rather than to the inventive geniuses themselves. On the other hand, as has been indicated, numerous fortunes have been created in uneconomic or unsocial fashions. In

attempting an answer to the old question, How much is a man worth? we should insist merely that his individual acquisition be determined by his economic or social productivity.

**24. Equality of Opportunity.**—<sup>1</sup>Equality of opportunity does not imply an absolute equality, but rather a conscious inequality based on biological differences.<sup>1</sup> Although it assumes equality before the law, such an ideal would permit each individual in society to develop to the limits of his inherent ability and to assume a position of responsibility or a more humble occupation according to his natural gifts, acquired training, and demonstrated accomplishments.

<sup>1</sup>Equality of opportunity would minimize artificial inequalities, which are the results of varying social heredities and which reflect fortunate or unfortunate economic environments rather than different abilities. Every individual would be forced to start the race of life from "scratch" and not under a handicap system. Unless individual initiative is to be killed, all participants should be permitted to progress according to the inherent powers with which nature has endowed them!

A flat equality, which certain writers falsely interpret as democracy, would result in injustice. But injustice results now when positions of responsibility and high salary are filled by mediocre individuals, when men of superior ability are forced to remain in the lower economic groups because of a lack of education or of industrial opportunity. Gray's famous "Elegy in a Country Churchyard" contains intimations of existing inequality of opportunity in its references to a "mute, inglorious Milton" and a "Cromwell guiltless of his country's blood." Its beautiful lines have been frequently quoted, but its social and economic connotations have been blissfully ignored.

A truly democratic society must be selective. It must maintain a differentiated educational system in which the type of education depends on the ability of the student rather than on the income of his parents. As admission to the professions requires a long period of preparation and training, a number of promising children are now forced to leave school as soon as the law permits. Although a genius will triumph over all obstacles and rise out of blind-alley occupations, such widely advertised cases are relatively rare. Scant attention is paid to the more numerous cases of individuals of no conspicuous ability who are kept in school indefinitely by their wealthy parents and who are later placed in lucrative positions.

<sup>1</sup>Equality of opportunity involves the removal of artificial obstacles, for it would compel every individual in society to stand on his own feet. On the other hand, it would frankly recognize biological differences by permitting each individual to find his own level in economic society. Such a concept may be socialistic, but it is not socialism. It does not necessitate the collective ownership and operation of industry, and it

does not imply the extinction of individual enterprise. But it does imply a changing concept of private-property rights. However, progressive income- and inheritance-tax laws now exist which would have been considered revolutionary a century ago!

'Equality of opportunity recognizes the competitive character of modern economic society and even the importance of individual acquisition as a necessary economic stimulus. But it seeks to reward the individual's own achievements, rather than the selection of his parents.' It seeks to correlate more closely individual acquisition with individual production. It has been indicated that the former is not always a fair measure of the latter.

Although the pecuniary interest is powerful, it is by no means the only strong incentive. Socialists, for illustration, would substitute social esteem and popular recognition for the sordid profits motive. 'Equality of opportunity, however, does not substitute the laurel wreath for the purse of gold as an economic stimulus, but it does seek to reduce the gains of unscrupulous cleverness and the advantages flowing from the mere accident of birth.'

**25. Summary.**—Inequalities are either biologic and inherent or social and acquired. Men are not born equal in either physical aptitudes or social opportunities. Although slavery has been abolished and progress toward equality before the law has been made, economic inequality continues to be a persistent social problem. Our great national prosperity has been honeycombed with economic inequality and industrial insecurity, both of which are important causes of modern industrial unrest.

A study of the estates of decedents showed that the wealth of the United States has been very unequally divided. A study of our national income by the National Bureau of Economic Research and an analysis of income-tax returns show a similarly unequal distribution of the national income. The lion's share of property income has been concentrated among a minority of our total population.

The division of the national income between property or managerial shares, represented by rent, interest, and profits, and service shares, represented by wages and salaries, has been fairly stable and equal with an occasional tendency of the service share to increase relatively as well as absolutely. On the other hand, that portion of the national income represented by values created by manufacturing displayed a reverse tendency during the postwar period of increased industrial productivity. Service shares increased absolutely but decreased relatively.

During the depression years from 1929 to 1932, income to both property and service shares decreased, but at different rates. Whereas total property income declined seriously, total labor income and total entrepreneurial income decreased even more so.

Among the chief causes of economic inequality and large fortunes are the dynamic character of modern economic life and the present system of individual enterprise. Inflation, wars, trusts, industrial consolidations, and rising land values are some specific causes of great fortunes. Among the chief causes of their persistence are the unmodified right of inheritance, the trusteeship device, the failure to tax large incomes, inheritances, and excess profits at progressive rates, the failure to absorb at least a portion of the unearned increment from land, and the inability effectively to regulate trusts and public utilities.

Economic inequality has serious social and economic effects. It makes impossible the production of necessities for all before the production of luxuries for the few. Hence it reduces the total utility enjoyed by American society in the consumption of our great economic prosperity. Glaring economic inequality is represented, on the one hand, by the miserable living conditions and the high death rate of a large portion of our population, and, on the other hand, by the wasteful and conspicuous consumption of a fortunate few. The striking social contrast between the very rich and the very poor is an important cause of industrial unrest. It is mitigated to some extent by the extensive philanthropies of a few wealthy individuals who have regarded their huge fortunes as public trusts.

Economic success has often been interpreted as victory in the economic struggle for existence. But the possession of great wealth may be the result of inheritance, rather than of individual acquisition. Again, individual acquisition is not an absolute test or a perfect measure of economic production. Great fortunes may have been acquired by fortuitous circumstances, over which the individuals themselves have had little control. Again, they may have been acquired by unsocial, if not illegal, methods. A noble economic ideal is the adjustment of individual acquisition to individual production along socially desirable lines.

Equality of opportunity is not to be confused with economic equality. Equality of opportunity merely implies an equal chance to become unequal, *i.e.*, similar opportunities to all individuals to develop to the limits of their varying inherent abilities. Equality of opportunity does not decrease competition. It merely makes it a more accurate test of individual ability by the elimination of acquired advantages or disadvantages.

#### Collateral Reading

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### Questions for Discussion

1. What evidence do you have of the unequal division of the national wealth of the United States?
2. What evidence do you have of the unequal distribution of our national income?
3. Distinguish between property and service incomes. Do you regard the terms unearned and earned incomes as fair? Do they represent the same distinction as that between property and service incomes?
4. a. Show how the national income has been divided between property and service shares.  
 b. What tendencies, if any, have been evident?
5. a. How were the gains of the new industrial revolution divided between property and service shares?  
 b. What conclusions, if any, would you draw?
6. Enumerate and illustrate different types of inequality.
7. Distinguish between economic equality and equality of opportunity.
8. Is individual acquisition proportionate to individual production? Why or why not?
9. Outline some causes of economic inequality.
10. Outline some forces which tend to reduce economic inequality.
11. Indicate some important economic, social, and political effects of economic inequality.

### Topics for Investigation

1. Attempts to distinguish between earned and unearned income for purposes of taxation.
2. Veblen's concept of conspicuous consumption and the leisure class.

3. The analogy between natural selection in the struggle for existence and business success in economic competition.
4. Origins of large fortunes.
5. Taxation of estates and inheritances in the United States and abroad.
6. Wars and millionaires.
7. Growth of American cities and the unearned increment of land values.

## CHAPTER VI

### THEORIES OF WAGES AND THE COURSE OF REAL WAGES

#### LABOR'S SHARE IN OUR NATIONAL PROSPERITY

**1. Nature of Labor.**—Labor may be defined as human effort directed toward the creation of utilities in commodities and services. As the term "labor is confined to the economic activities of human beings, the strenuous and productive exertions of lower animals cannot be regarded as labor in its strictly economic sense. Beasts of burden should be classified as capital. Again, the play of men or boys may be very fatiguing, but it is not labor. The motive of all play is recreation rather than production, or enjoyment rather than the creation of utilities. When play and production are combined, the question becomes which motive is primary and which is secondary or incidental. Such an economic distinction is in agreement with the common difference between the amateur sportsman and the professional fisherman, hunter, or baseball player. The psychologist may draw a distinction between play and labor, which is based on the individual's experience of pleasure or pain, but the economist considers the motive and result.'

'Labor may be enjoyable rather than irksome, if it is not too monotonous, difficult, or prolonged. A normal individual relishes creative effort and productive labor. Continuous and enforced idleness is one of the worst possible punishments, as all penologists well know. Paradise has often been pictured as a delightful place of prolonged idleness in a heavenly environment, where an inexhaustible and readily accessible supply of milk and honey permit the enjoyment of infinite leisure by its angelic inhabitants. Such was the concept of an exploited and poverty-stricken people, who dreamed of an entirely different condition of affairs from the one under which they lived. Modern social preachers, however, do not deplore labor but glorify it. They do not idly dream of the elimination of work but strenuously and constantly seek for an improvement of working conditions. By the reduction of excessive hours of work they aspire to an adequate amount of leisure, not for the few but for the many. By an increase of wages they seek the development of higher standards of living, which make possible the development of cultural and spiritual ideals.'

**2. Types of Labor.**—Production is the creation of utilities, and economic producers are individuals who create utilities. Such utilities may be those of form, time, place, possession, or service,' as illustrated

by the labor of a carpenter, a canner, a locomotive engineer, a store clerk, or a physician.

Productive labor results in the creation of utilities. Gainful employment is labor for which monetary remuneration is received. Thus the labor of housewives is productive, for they create numerous and important utilities, even though they may not receive wages or salaries. Because their commodities or services are not bought or sold, these economic producers are not gainfully employed in the strictly economic sense of the term. On the other hand, soldiers engaged in destructive warfare are gainfully employed, but not economically productive. This distinction between gainful employment and productive labor is important, for these terms are in common use in books dealing with labor problems.

The distinction between productive and unproductive labor is not the same as that between socially desirable and socially undesirable labor. The former distinction depends on the creation of a utility—any utility to any consumer. The latter is a matter of ethics rather than of economics. It involves subjective, moral or aesthetic judgment concerning the nature of a utility and its relationship to individual welfare and social well-being.

Again, neither of these two distinctions coincides with that between legal and illegal labor. The latter distinction depends on the existence or non-existence of a law, statute, or ordinance and its exact wording.

Not all productive labor is socially desirable. Neither is all socially undesirable labor illegal. Whiskey may possess utility to one person but not to another. Its manufacture, therefore, is productive labor, because a utility is created. On the other hand, the manufacture of whiskey may be regarded as socially undesirable, and legislation may be passed to prevent its distillation and sale. Again, the manufacture of chewing gum, cigarettes, impotent patent medicines, or trashy novels may be socially undesirable but not illegal or unproductive.

Just as land in its economic sense includes all forms of natural resources, so the labor supply includes all kinds of human workers, whether by brawn or by brain, as long as that human effort is productive of utilities. The distinction between wages and salaries is an arbitrary social distinction rather than a real economic difference.

'The dignity of labor lies not in its rate of compensation, not in the amount of hardship avoided, and not in the relative amount of social prestige attached to it. The true dignity of labor is to be found in its social usefulness. The Founder of Christianity was a manual laborer, by trade a carpenter. Hence, the poet sang:

This is the gospel of labor,  
Ring it, ye bells of the kirk,  
The God of love came down from above  
To live with the men who work.'



Labor may be that of an independent enterprise or that exerted in the employment of another. Individuals who are working for themselves, whether as corner bootblacks or as heads of large concerns, are usually regarded as business enterprisers rather than as laborers. The term "labor" is generally used to refer to the employed group who receive wages, rather than to those who are seeking to make profits on their own initiative and responsibility.

The total normal adult population of a nation constitutes its potential labor supply. There are two social groups within the population, however, who form no part of the great mass of economic producers. They are represented on the one extreme by the social debtor groups, *i.e.*, defectives, delinquents, and dependents, representing, respectively, the

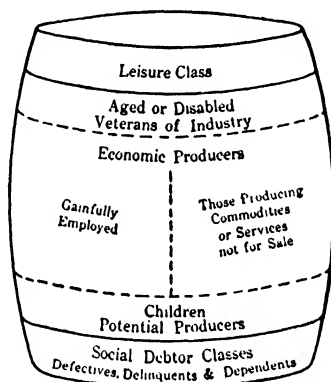


CHART 18.—Economic producers and non-producers.

incompetents, the criminals, and the paupers in society. At the other extreme of the social scale are members of the so-called "leisure class," who are exempt from productive labor by virtue of their ownership of enough wealth to yield an income sufficient to maintain them in idleness:

'A brilliant French critic once said of contemporary English society that it resembled a barrel of its own ale, dregs at the bottom and froth at the top, but thoroughly wholesome in the middle. This homely analogy is expressed graphically in Chart 18, which distinguishes between producers and non-producers.'

Although early civilizations were largely the product of an "intelligentsia," supported by the labor of slaves and serfs, this type of culture is a curious survival in a modern democracy. On the other hand, many individuals are gainfully employed at pitifully small wages who should be excluded from the ranks of wage earners. Thus rising standards of social welfare oppose the employment of children, the aged, and mothers endeavoring to rear families and to maintain a home. National

leisure, like national prosperity, should be more equitably distributed. Youth, old age, motherhood, individual infirmities, or social responsibilities, in the best sense of the words, rather than the mere possession of sufficient income, should be the tests for exemption from the ranks of economically productive workers.

**3. Gainfully Employed Population of the United States.**—The 1930 census revealed almost fifty million individuals gainfully employed in this country, *i.e.*, over a third of our total population. Most of the remaining two-thirds was made up of children and housewives. The aged, the unemployed, and defectives, delinquents, and dependents made up the remainder.

The occupational distribution of the gainfully employed in 1930 can be seen from the following census table. It is illustrated in Chart 19.

GAINFULLY EMPLOYED ACCORDING TO OCCUPATION IN 1930

Agriculture.....	10,471,998
Forestry and fishing.....	250,469
Extraction of minerals.....	984,323
Manufacturing and mechanical industries.....	14,110,650
Transportation and communication.....	3,843,147
Trade.....	6,081,467
Public service (not elsewhere classified).....	856,205
Professional service.....	3,253,884
Domestic and personal service.....	4,952,451
Clerical occupations.....	4,025,324
Total.....	48,829,918

In spite of cyclical unemployment due to the business depression, a greater portion of our population was gainfully employed in 1930 than in 1920. Although not necessarily a greater portion of the population was productive than formerly, a greater portion was composed of wage earners and those selling their products in the market.

The increasing industrialization of the United States is indicated by the fact that manufacturing and mechanical industries constituted the largest single occupational group in 1930. Although agriculture came second, there were actually fewer wage earners in each of the extractive industries in 1930 than in 1920. Farming, fishing, and forestry, and even mining, declined in absolute, as well as relative, importance in the ten years from 1920 to 1930.

Not only did manufacturing and mechanical industries employ more workers in 1930 than in 1920, but also transportation and communication, trade, public service, the professions; domestic and personal service, and clerical occupations increased in numbers in this ten-year period. The chief gains were in commercial and manufacturing occupations.

There has been taking place a shift from primary occupations to secondary ones, from those which are popularly called "productive"

to those which are loosely termed "distributive," from the growing or mining of things to the rendering of services. Finally, the white-collar group has been increasing, relatively as well as absolutely, in comparison with the "horny-handed sons of toil."

Forestry and Fishing	(250,469)
Public Service	(856,205)
Extraction of Minerals	(984,323)
Professional Service	(3,253,884)
Transportation and Communication	(3,843,147)
Clerical Occupations	(4,025,324)
Domestic and Personal Service	(4,952,451)
Trade	(6,081,467)
Agriculture	(10,471,998)
Manufacturing and Mechanical Industries	(14,110,650)

CHART 19.—Occupational distribution of gainfully employed in the United States. (*Census of 1930.*)

**4. Non-competing Labor Groups.**—The gainfully employed portion of our population is as non-competitive as it is heterogeneous. Not only can it be divided vertically into various occupational groups but also horizontally into various economic classes.

Economists speak of the so-called "non-competing" labor groups. There is unskilled labor at the bottom of the social pyramid. Next comes the semiskilled group, next the skilled and clerical groups, next that represented by small business men and the professional classes. At the apex of this social pyramid are those individuals of superior capacity who are capable of planning and carrying out large undertakings:

No such classification is absolute, but merely suggestive. In reality there are many social and economic groups which overlap and which gradually fade into each other. Again, within a democracy, individuals are constantly moving up and down from one group to another. The romance of American history lies in the absence of social castes. A rail splitter became President and numerous great captains of industry rose from the ranks!

Just as there are differences in land which help to explain economic rent, so there are human differences which help to explain wages. The important question is whether these human differences are the result

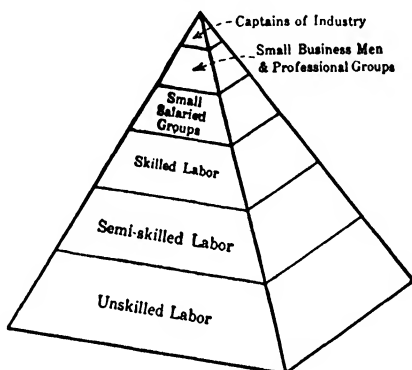


CHART 20.—The social pyramid.

In reality, there are innumerable overlapping groups, many of which are non-competing. Qualifications are different for each group, and the passage from one group to another is difficult. The above chart pictures the situation as more rigid than it really is; but it does illustrate that the relative supply of each group increases as the scale descends.

of heredity or environment. Does the composition of these economic groups, which represent different degrees of economic capacity, reflect biological or social differences? Are certain individuals in society hewers of wood and drawers of water because they are mentally incapable of doing nothing else? Or is it merely that they have never received the education or inspiration to do something better? Mental and physical differences between individuals will always exist because of the biological facts of heredity and variation. Nevertheless, it cannot be assumed that the higher income groups represent superior biological stock and the poorer groups inferior heredity.

**5. Supply of Labor and the Social Pyramid.**—For an explanation of differences in wages, one must turn to relative conditions of supply and demand. The number of competent men for certain types of work is limited, either because of a lack of natural ability or because of a lack of proper training. On the other hand, the relative supply of some of the lower types of labor is great.

Population tends to grow from the bottom of the social pyramid, *i.e.*, to increase most rapidly among the lower economic groups. Although

civilization is accompanied by a falling birth rate, as well as by a falling death rate, there are wide variations among different countries and among the different social groups within a given country. This social phenomenon is illustrated by the following table.

BIRTH RATE ACCORDING TO DEGREE OF WEALTH IN DIFFERENT SECTIONS OF  
EUROPEAN CITIES<sup>1</sup>  
(Average Number of Annual Births per 1,000 Women from Fifteen to Fifty Years  
of Age)

	Number of years	Very poor	Poor	Well off	Very well off	Rich	Very rich
Paris.....	5	108	95	72	65	53	34
London.....	5	147	140	107	107	87	63
Berlin.....	5	157	129	114	96	63	47
Vienna.....	5	200	164	155	153	107	71

<sup>1</sup> BERTILLION, Quoted by Chatterton-Hill, "Heredity and Selection in Sociology," p. 325.

The foregoing table of birth rates in different European countries with different birth rates shows the common tendency of population to grow more rapidly from the bottom than from the top.

A similar tendency can be seen in our own country, where the low-wage group consists largely of unskilled laborers. Their birth rate is higher and their standard of living lower than those of the more prosperous groups. According to Professor Carver,<sup>1</sup> wages will tend to remain low in certain occupations as long as the workers in these groups continue to increase rapidly by large immigrations from either Europe or Heaven!

'Within the same labor groups there are apt to be slight differences in wages due to the immobility of labor. These differences may be explained also in terms of the greater hazards or irregularity of employment in certain occupations, which must pay somewhat higher wages in order to attract workers from more desirable occupations within the same labor group. Again, social prestige may impel an individual to accept a "white-collar job" which pays less than another occupation within the same economic group, representing similar supply and demand forces.'

**6. Development of the Wage System.**—In a primitive economic society the producer and the consumer were identical; *i.e.*, each producer consumed chiefly his own products and *vice versa*. There was little specialization and there were few organized markets for either commodities or services. Moreover, ancient and medieval societies were characterized by slavery and serfdom, forms of status, as contrasted with freedom of contract, which is essential to the wage system.

<sup>1</sup> CARVER, T. N., "Essays in Social Justice," chap. 14.

'Capitalism implies individual enterprise and private initiative, rather than the collective ownership and operation of the instruments of production. Competition and freedom of contract also are involved. Markets exist, exchange flourishes, and price is the automatic regulator of production. All of these factors, and more, are necessary to a complete understanding of the wage system, which developed with capitalism and is still inseparable from it.

'Industrialism, the most recent phase of capitalism, involves the factors of power machinery, the factory system, increased territorial specialization, and the development of world-wide markets.' Although the wage system antedated the industrial revolution, it was not until then that minute division of labor developed and that capital assumed its present forms and importance. As power machinery replaced the craftsman and the factory system supplanted the domestic system, there came into existence a group of machine owners and a group of machine operators. The workers lost the ownership of their instruments of production and the control of their conditions of employment. The industrial revolution produced a different economic and social line of cleavage, as well as a new class consciousness. These factors have colored the modern wage system.

**7. Characteristics of the Wage System.**—The term "wage system" is very vaguely used and is difficult of exact definition. It is essential, however, that we note some of its chief characteristics. 'Under the wage system the enterpriser determines the course of production and brings together the various factors in production, accepting the financial responsibility, in part at least, for his economic venture. As production is roundabout and in anticipation of demand, the enterpriser must own or borrow the capital from which he makes advances to the workers in the form of wages. Not only does he direct the economic process, but also he advances wages to labor as its share of the final product.'

The enterpriser's reward in the form of profits is relatively uncertain, although often very large. The tendency of losses to balance profits is sometimes overlooked by labor leaders. Again, the enterpriser is under constant pressure to meet the price competition of the market. On the other hand, the worker as well as the employer shares the risks of industry. Some of the physical and financial risks of labor, such as unemployment, industrial accidents, and a dependent old age, will be treated in the following section of this work.

Although the wage system now involves ownership of the instruments of production by the capitalist class, it does not follow that the employee is completely dependent on the employer as to wages, hours, and conditions of work. Although the wages of many groups of workers are woefully inadequate to maintain a minimum standard of living for their families, the organization of labor has developed in response to its

bargaining disadvantages. Again, the employer's ownership of the instruments of production and his control of the conditions of production have been modified, not only by the development of effective collective bargaining among the workers, but also by the inauguration of such recent devices as employee ownership of stock and by employee representation in industry.

It is impossible in this brief survey of some social problems of industry to discuss in detail particular wage theories or general theories of distribution. It is hoped that the reader has previously had a general course in economic principles or, if not, that he will at this point betake himself to a general text on economic theory. In order that this chapter on wage theories and the course of real wages be thought-provoking, the student should try to square these inductive and quantitative findings with general economic principles. The course of real wages should be analyzed in the light of various wage theories, only a brief mention of which can be made here.

**8. Subsistence Theory of Wages.**—One of the earliest theories of wages is that familiarly known as the "subsistence theory," or, as the socialists termed it, the "iron law of wages." This theory is commonly ascribed to David Ricardo and the pessimists, whose gloomy forebodings made Thomas Carlyle term political economy the "dismal science." The subsistence theory of wages was the product of the principle of diminishing returns from land and the Malthusian law of population. The niggardliness of nature and the procreative instinct of man were regarded as making it impossible for wages in the long run ever to rise above a mere subsistence level. As population increased, the demand for land became greater and rents increased. As rents increased, profits fell. Hence the landlord benefited at the expense of the capitalist. Although money wages rose, real wages tended to remain fairly constant at a subsistence level. Whether the landlord profited at the expense of the manufacturer, or the reverse, it was black bread for the worker in either case. Such was the view of the English classical school!

The law of diminishing returns from land and the Malthusian law of population are correct when stated with proper qualifications and as general tendencies. But there are also other tendencies, such as progress in the arts, which increase productivity, and a rise in standards of living, which is accompanied by a decrease in the birth rate. Rapid improvements in the arts of production since the days of Ricardo have probably offset or deferred the sinister consequences of the principle of diminishing returns from land. Again, the great abundance of natural resources in America and the relative scarcity of our population have made the Malthusian specter a rather remote one in this country. The exhaustion of free land and the absence of a frontier are relatively recent developments in the United States.

The subsistence theory of wages has sometimes been interpreted to mean not a bare physical existence in the sense of just sufficient food to keep the worker alive and to permit him to reproduce of his kind, but as the current minimum standard of living. But the very qualification of a minimum standard of living makes the subsistence theory of wages an expansive concept and not a rigid one, as its critics supposed it to be. Just as higher wages make for higher standards of living, so a rising standard of living makes for higher wages, either directly by individuals refusing to work for less than their full marginal product or indirectly by the limitation of population!

**9. Wages-fund Theory.**—The subsistence theory of wages was modified by Mill and his contemporaries into what has been termed the “wages-fund theory.” According to this concept, the quantity of available working capital constitutes a definite and somewhat rigid wages fund. The general rate of wages was regarded as a mere ratio between capital and population. The wages-fund theory was later refined by substituting for capital only that part of it available for advances to labor, chiefly food, and by substituting for population only that portion of it consisting of laborers. But such qualifications made the wages-fund theory a mere truism, which states only that the workers get what they get.

A number of criticisms were leveled against the wages-fund theory. It was denied that capital constitutes the sole demand for labor and that the relative amount of working capital determines wages. Henry George and Francis Walker denied the existence of a rigid wages fund and refused to believe that wages depended on the ratio between capital and labor. Instead, they contended that wages were determined by current income, rather than by the stock of capital in existence.

Cairnes, a disciple of Mill, and himself an advocate of the wages fund, pointed out the heterogeneous character of the laboring population and the existence of various non-competing groups. The supply and demand forces for each of these divergent groups are very different. If this is true, then perhaps it is incorrect to speak of a general wages fund or even of a general rate of wages except for members of the same labor group. Nevertheless, Cairnes was firmly convinced of the existence of a wages fund, of the dependence of wages in general on the supply of available capital, and of the futility of labor organizations to secure increased wages except at the expense of some other group.

**10. Marginal- and Specific-productivity Theories.**—The commonly accepted wage doctrine today is the marginal-productivity theory, or perhaps the specific-productivity theory.

The marginal-productivity theory, in brief, contends that each worker will receive in wages an amount equal to the marginal product of his labor group. This marginal product can be estimated by measuring



the loss in production due to the withdrawal of one worker from a particular combination of land, labor, capital, and business enterprise. The theoretical marginal worker measures the wages of his group.'

The particular combinations of factors in production are determined by the cost of each factor and by the value of the finished product. Plentiful factors will be cheap and will be used abundantly, while scarce factors will be dear and will be used sparingly. The values of factors and products are determined simultaneously, and the values of commodities and services are determined similarly. 'There is an infinite series of margins determined by an infinite and interdependent series of supply and demand forces, which determine simultaneously the location of margins, the character of marginal uses of each factor, and the amount of the marginal product itself.'

'The wages of a worker in a particular labor group, like the value of an economic good, are determined by relative supply and demand forces. If the supply is great, relative to its demand, the marginal product of that type of labor will be low. If the reverse is true, wages will be high.' Compare the relative supply and demand forces for ditch diggers with those for carpenters, bookkeepers, or surgeons.

'The answer to the problem of low wages, say some advocates of marginalism, is not a minimum-wage law, but the reduction of the supply of that type of labor which is cheap, relative to other types of labor, relative to other factors in production, and relative to its particular demand. Hence reliance is placed on a lowered birth rate, a restriction of immigration, or a program of free education, by means of which promising individuals in the lower and more crowded economic groups are permitted to move outward and upward into the less congested and more remunerative occupations:

'The specific-productivity theory contends that each factor in production, *e.g.*, labor, receives in distribution a share, *e.g.*, wages, which is equivalent to just what it produces. The specific-productivity theory makes distribution a valuation process of the factors in production and seeks to isolate from the joint product of all factors in production the specific product of each one. The specific-productivity theory has been interpreted as a justification of the present economic system, as it claims that each factor gets just what it produces.

The marginal-productivity theory likewise makes distribution a valuation process of the factors of production, but it cannot be regarded as a justification of the present system. It does not claim that each factor gets just what it produces; nor does it profess to be able to isolate the specific product of any one factor from the joint product of all factors in combination with each other.

**11. Criticisms of Marginal and Specific Productivity.**—There are several modifying influences on the marginal-productivity theory.

Although they do not invalidate its truth, they render difficult its practical application. In the first place, our intricate division of labor conceals the product of labor or even of a laborer, the exact measurement of which is difficult. In the second place, the employer stands between the worker and the ultimate consumer. The joint product of many workers must pass through the hands of many employers and merchants before it is finally sold as a finished good. The cooperative, specialized, and indirect character of modern industry renders impossible the isolation of the specific product of labor. It also makes difficult the measurement of the marginal product of a given type of labor, by the addition or subtraction of one unit of labor from a given combination of factors in production.<sup>1</sup>

While economists have questioned the validity of the specific-productivity theory and the practicability of the marginal-productivity theory, labor leaders have indicted both. The specific-productivity theory has been regarded as an academic attempt to justify the present economic system. The marginal-productivity theory has been stigmatized as a mere commodity theory of wages which evaluates the labor of human beings in the same manner as that of a piece of machinery or a barrel of potatoes.<sup>2</sup>

But how else can one attack the problem of wages, which is essentially a valuation problem, except with the supply and demand blades of the scissors of value. Moreover, the dislike of a given theory is no proof of its falsity. The calling of names does not dislodge one from a reasonable position well buttressed with true facts and sound logic.

**12. Bargaining Theories.**—On the other hand, economists will do well to consider how far the force of competition has free play in the determination of the value of services as well as of commodities. A strong association of employers and a powerful labor union may be so monopolistic in character as to render the assumption of free competition a mere fiction. Under any circumstances one must consider the relative bargaining power of a labor group as well as its supply and demand forces.<sup>3</sup>

The bargaining theory assumes that employers and employees are opposed to each other in a market in which their forces are about equal. Consequently, wages are determined in a manner similar to the determination of other values; *i.e.*, there is no condition of great ignorance or weakness on either side. The estimate of the laborer is a resultant of the utility of the reward and the disutility of the work, and the estimate of the employer depends on the increase in the value of the product. Between these upper and lower limits of seller and buyer, respectively, wages are determined by the relative bargaining power of the two parties to the wage contract. According to this theory, the employer's estimate is an approximation of the marginal product of labor. It represents a maximum beyond which he cannot go. How much below this point

he will go depends on the relative bargaining position of the two parties.'

'In reality, the bargaining power of the two parties to the wage contract is not equal but vastly different. Because of their inferior knowledge of the market, their lack of mobility, their inferior resources, and their lack of effective organization, most labor groups are inferior in bargaining power to the employers.'

### **13. Reconciliation of Productivity and Bargaining Theories.—**

Critics of the marginal-productivity theory have pointed with the one hand to the great gains in the wages of strongly organized unions, and with the other hand to the bare subsistence wages of unorganized groups. But such an appeal to the facts does not overthrow the marginal-productivity theory, for the organized groups of workers may have secured their higher wages by an artificial restriction of their numbers by such devices as the closed shop, a limitation of apprentices, and the restriction of immigration. Again, theories are mere statements of general tendencies, which may be opposed or frustrated by the operation of other forces. Thus wages are the resultant, not only of the relative supply and demand forces of a given type of labor, but also of its relative bargaining powers. In addition, there is the omnipresent force of inertia, represented by the institutionalization of a given wage which makes adjustment difficult.

If the workers are unorganized, ignorant, and immobile, whereas the employer is powerfully entrenched, the clever bargainer may succeed in paying that type of labor less than its marginal product. The employer himself may pocket as additional profits the difference between the marginal product and the actual wage. This has been the situation in certain sweated trades in which the subsistence wage has been a reality. On the other hand, if labor is well organized, it may be able to bargain so successfully that the employer will be forced to pay in wages the full value of the marginal product of labor. Again, the organized workers may be successful in raising their marginal product and hence their wages by an artificial limitation of the supply of that type of labor.

Perhaps it is safe to say that the marginal product merely fixes an upper limit to wages. It is obvious that an employer will let a man go rather than pay him more wages than the value of his marginal product. On the other hand, where the workers are unorganized, an employer will be able to pay his employees as much less as they are willing to take. Thus, in spite of the existence of a real or theoretical marginal product for clothing workers, the sweater made an individual wage bargain with each worker. This "sweated" wage varies inversely with each worker's necessities and directly with his or her bargaining power.

### **14. Idealistic and "Realistic" Theories of Hobson and Marx.—**

Professor Hobson attempted to replace our pecuniary values of industry with what he termed a "human valuation." He sought to express

social, rather than monetary, costs of production. His argument, which is inspiring rather than convincing, departs from the relative-scarcity approach of marginal productivity. His theory of wages is that the minimum wage of labor must be a sum sufficient to maintain the laborer in working efficiency and to permit him to rear a family in decency and comfort. But the wages of many workers are insufficient to do this, as will be demonstrated in the following chapter. Hence Professor Hobson has given us an ideal picture of what should be, rather than an exact picture of what is.

Karl Marx, the founder of socialism, appropriated from Ricardo and the classical economists not only the iron law of wages, but also their labor theory of value. Marx contended that the employer received a surplus value by selling the products of labor at their use value, paying the laborers a mere subsistence wage, and keeping the difference himself. In his economic interpretation of history, Marx further contended that the lot of the workers was becoming steadily worse. He believed that the general course of real wages was downward under conditions of modern capitalism.

Although it is true that conditions of labor were probably worse immediately after the industrial revolution than immediately before it, it is not true that in the long run the laborer has become worse off. On the contrary, his lot has improved over the course of centuries. It will soon be demonstrated that the general trend of real wages has been upward, in spite of certain periods of temporary retrogression.

**15. Cost of Living and Social Productivity Theories.**—Other theories of wages have been constructed on a cost-of-living basis. The thought behind such a concept is that money wages should keep pace with changes in costs of living. Such an analysis is not a theory of wages at all. It assumes a given wage for a given group of workers and then merely endeavors to maintain the same real wages by adjusting money wages to changes in the general price level and the altered costs of living. This theory of wages has been seized by workers in periods of rising prices to secure increases in money wages and by employers in times of falling prices to justify cuts in the money wages of their employees.

In addition to the concept of steady real wages and an adequate family wage, labor leaders are now advancing the theory of a social wage. To what extent is labor sharing in the technological advances of the past decade? The problem of social wages is not merely to advance money wages in proportion to increases in the price level, but rather to increase real wages in proportion to the gains in industrial productivity. Such a concept of wages is dynamic rather than static.

**16. Difficulties in Determining the Course of Wages.**—The course of real wages before the opening of the twentieth century is largely a matter of conjecture, for reliable statistics are not available. But the con-

sensus of opinion, based on the best possible evidence, is that real wages increased during the last century. In spite of various fluctuations, the general trend seems to have been upward.

The course of real wages during the present century has been carefully studied, but different conclusions have been drawn by various investigators. There have been several short-run periods which have displayed divergent tendencies. This was particularly true of the period of inflation and rapidly rising prices during the World War. During this relatively short period of time, the course of real wages was very irregular and it varied greatly for different groups. However, during the first postwar decade a general upward movement of real wages took place, until checked by the great depression.

Several studies of the course of real wages will be presented and analyzed. The student will be permitted to draw his own conclusions from the evidence presented. There is considerable unanimity of opinion on some points, for some periods, and for some groups, but the student should be prepared to find some differences in the conclusions of various investigators. Their similar and dissimilar findings should be noted carefully. Old and new wage theories should be tested in the light of these quantitative, inductive findings as to the course of real wages.

Some divergence of opinion is natural, owing to the complexity of the material, the dynamic character of industrial society, and differences in scope and method of the various wage studies. Thus the term "wages" is used by some investigators to include salaried groups as well as wage earners in the narrow sense of the term. Again, it has been used to include workers in agriculture and other pursuits, or restricted to those in manufacturing and industry.

Divergent conclusions are sometimes due to different concepts of wages. However, the term wages, strictly interpreted, means wage rates, and the term "earnings" refers to what the worker actually receives. A wage rate represents labor payments for a short period of time, such as an hour or a day, whereas earnings are labor payments for a longer period of time, such as a month or a year. Thus earnings are wages refined in terms of unemployment or other absence from work. In spite of high wage rates, actual earnings may be low. Although actual earnings afford a better measure of wages than do wage rates, they are much more difficult to secure with any degree of accuracy.

**17. Wage Trends and Changes in the General Price Level.**—The course of real wages is difficult to determine also because of fluctuations in the general price level. After money earnings have been ascertained, they must be refined in terms of changing costs of living. The distinction between money wages and real wages is familiar, but it is none the less important. It is obvious that if a man receives \$2,000 this year, instead of \$1,000 received a decade ago, his money wages have doubled. But

if in the meantime the general price level has doubled, the purchasing power of his money wages has been cut in half. Although his money wages have doubled, his real wages have remained the same.

Wars have been periods of inflation, followed by postwar periods of deflation. Although exact and authoritative information is lacking, such seems to have been true of the Revolutionary War and the War of 1812. Likewise, the Civil War was a period of inflation, during which relatively short time the general price level more than doubled.

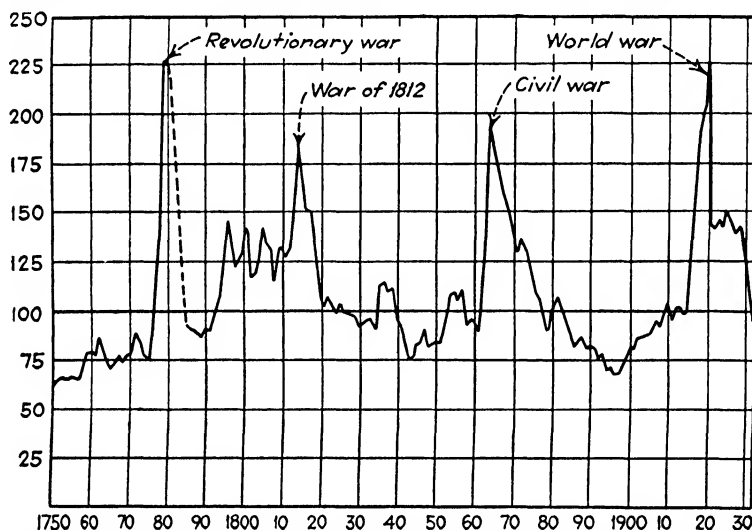


CHART 21.—Two centuries of changes in the general price level (base or 100 per cent = average, 1910 to 1914). (Indices of changes in wholesale price level are those of Leonard P. Ayres.)

From the close of the Civil War until almost the opening of the present century, the general trend of the price level was downward, in spite of minor fluctuations during this period of thirty years. About 1896, however, a change occurred, one cause of which was an increase in the world's supply of gold. The general price level began to rise slowly instead of continuing its fall. In spite of minor fluctuations the general trend was gradually upward during the next two decades.

The period of the World War and the two postwar years of inflation witnessed a rapid increase in the general price level. Within five years the general price level doubled. But, in 1920 and 1921, there was a sharp decline in the general price level, although it did not fall back to its prewar level. The period from 1922 to 1929 was one of relative stability, but in the great depression of 1929 to 1933 the general price level fell back approximately to the prewar level of 1913.

**18. Long-run Trend of Real Wages.**—One of the most comprehensive studies of the general trends of money and real wages in America is that

of Professor Hansen, which gives an excellent bird's-eye view of their changes during the past century. The results of this study are reproduced in Charts 22A and B (pages 158 and 159). The solid line (Curve A), Chart 22A, is Hansen's combination and coordination of numerous previous studies of the course of money wages. The dotted line (Curve B) represents a study of the same problem by the Russell Sage Foundation. It is expressed in a similar fashion. The correlation between the two curves is unusually great. This testifies to the truth of the picture which is presented, for each finding was independently determined.

In order to convert money wages into real wages, an index of costs of living is essential. Chart 21 pictures the changes in the general level of wholesale prices. Changes in the costs of living have followed this general pattern, but the two movements are comparable only in a very broad fashion. Costs of living are based on retail, not wholesale, prices and they include services as well as commodities. An index of costs of living from the U. S. Bureau of Labor Statistics will be given in the following chapter. For details of Hansen's indices of costs of living, money wages, and real wages, the student is referred to his article in the *American Economic Review*.<sup>1</sup>

Chart 22B gives a logarithmic curve of real wages from 1820 to 1924 according to the index of Professor Hansen. It also shows the curve of production from 1880 to 1920. The dotted straight line indicates the general trend of real wages by the elimination of minor fluctuations; i.e., it gives only the secular trend and omits the cyclical movements shown in the other curve.

According to this study, real wages toward the close of the nineteenth century were over twice as great as those in the early decades of that century. In 1924, American real wages were three times as great as in 1820.

One of the most interesting features of Chart 22B is the way in which the secular trend of real wages parallels that of production. Hence, in the long run, if not in the short run, the general tendency has been for labor to share in the increased productivity of industry.

Although the long-run course of real wages has been upward, as shown by these findings of Professor Hansen, it will be noted that there have been periods of relative and even of absolute recession. Thus, there was a fall in real wages in the middle thirties, about which little is known except that it was probably associated with the panic of 1837. There was a period of recovery in the later thirties and forties, followed by a decline in the early fifties and a period of recovery in the late fifties.

During the Civil War prices rose more rapidly than money wages. Hence real wages suffered during this period of inflation, but they

<sup>1</sup> HANSEN, A. H., "Factors Affecting the Trend of Real Wages," *American Economic Review*, March, 1925.

recovered rapidly during the late sixties and early seventies. Although undergoing two cyclical variations in the next decade, the general trend was upward. From the middle of the eighties to the middle of the nineties, there was a steady and rapid upward tendency in the course of real wages.

From 1897 to 1900, however, there was a sudden sharp recession in real wages. This period was characterized by a changed tendency of

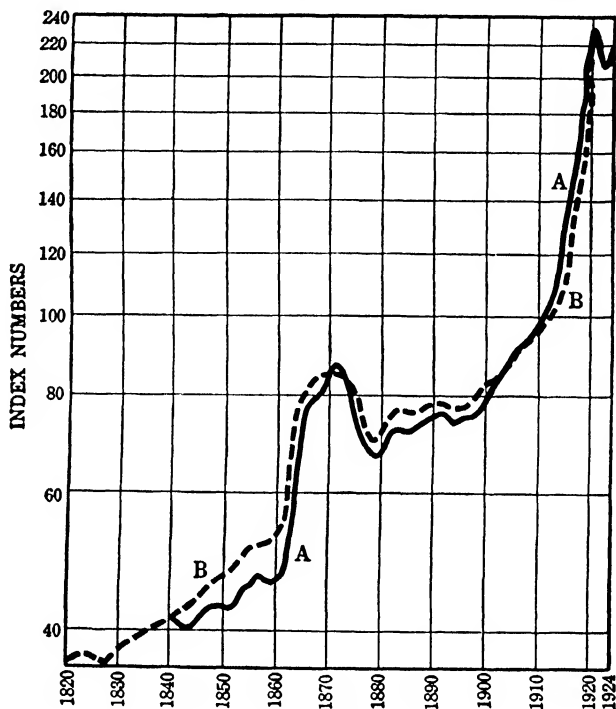


CHART 22A.—Courses of money wages (1820 to 1924). (Reproduced by permission from A. H. Hansen, "Factors Affecting the Trend of Real Wages," *American Economic Review*, p. 28, March, 1925.)

the general price level. Instead of continuing along its former downward course, the general price level began slowly to move upward just before the close of the nineteenth century.

After the short decline in real wages between 1897 and 1900, no general trend in the course of real wages appeared for the next fifteen years. Professor Hansen's index of real wages for 1913, 1914, and 1915 is just about the same as that for 1900. In other words, real wages varied from year to year during this period of fifteen years, but there was little net advance and, if anything, a slight decrease.

The year 1916 showed some advance in real wages, which gain was maintained with yearly fluctuations until 1919. Although money



wages rose markedly during this period of inflation, Hansen's index shows only a slight increase in real wages.

After this period of uncertainty, however, real wages showed a definite upward trend. From 1919 to 1923, real wages rose both steadily and rapidly. This recent increase in real wages, as will later be shown from other studies, continued until 1929. The new industrial revolution

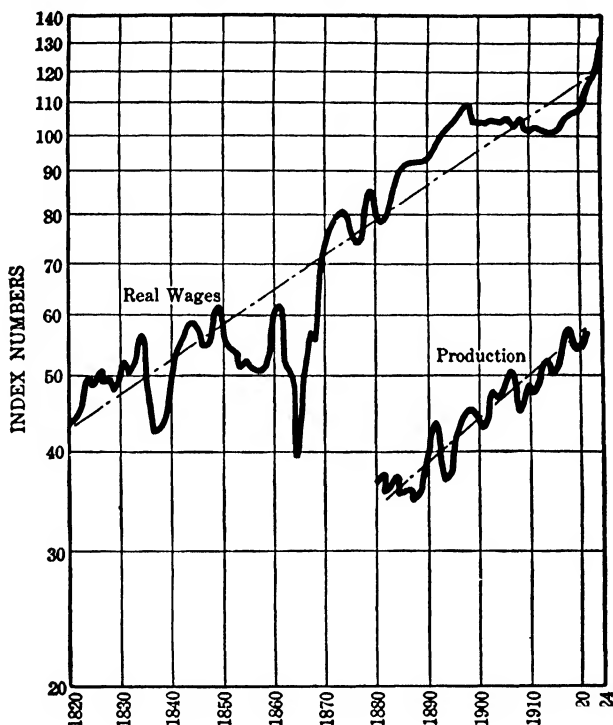


CHART 22B.—Course of real wages and production (1820 to 1924). (Reproduced by permission from A. H. Hansen, "Factors Affecting the Trend of Real Wages," *American Economic Review*, p. 34, March, 1925.)

of the United States, discussed in Chap. IV, was characterized by a rapid and substantial increase in real wages.

**19. Real Wages during the Period of Inflation.**—Common agreement exists as to the upward course of real wages in the eighties and early nineties, and as to their downward course in the late nineties and the first decade of the twentieth century. Again, it is even more certain that real wages rose markedly in the period of great national prosperity between the minor depression of 1921 and the major depression of 1929 to 1933. But there is considerable difference of opinion as to the course of real wages during the war and the postwar period of inflation.

The disputed period of the World War and the following two or three years is confused by the rapidity with which prices rose and by the great

divergencies in the gains of various groups of workers, to say nothing of the opposite tendencies of real wages for salaried and laboring groups. There are several studies of the course of real wages during this war-time period of inflation which are worthy of review, and which are representative of the variations in methods used and of the differences of opinion which prevailed.

The following conclusions were reached by the study of Douglas and Lamberson of wages of workers in manufactures. Real wages were converted into money wages by refining them in terms of food prices.

All the evidence seems to indicate that at the termination of the Great War the return in commodities that American workmen received for an equal length of time worked (one hour) was from 10 to 20 per cent less than it was in the decade from 1890 to 1899, and from 7 to 17 per cent less than it had been before the sharp upward movement of prices in 1916. The purchasing power of the established week's work, moreover, was from 20 to 30 per cent less than in the nineties, and from 10 to 20 per cent less than in 1915. American labor as a whole, therefore, cannot legitimately be charged with having profited during the war. Rather, like Alice in Wonderland, it was compelled to run faster in order to stay in the same place.<sup>1</sup>

The National Bureau of Economic Research also carefully studied the course of money earnings in its investigation of the national income during the decade from 1909 to 1918. It then compared its findings as to money earnings with an index of changes in the general price level during the same period. The refinement of money wages into real wages was not done simply by comparing them with changes in the prices of food, for other elements in the cost of living were included. Again, the National Bureau of Economic Research investigated all service incomes rather than merely the wages of workers in manufacturing. Whereas the study of Douglas and Lamberson was based on wage rates, that of the National Bureau of Economic Research was computed from average actual annual earnings. Because of these differences in method and units of comparison, the student will not be surprised to find somewhat different results. Nevertheless, there are important similarities in the conclusions of the two studies.

The findings of the National Bureau of Economic Research as to the course of average money earnings and average real earnings of all employees in all occupations from 1909 to 1918 is given in the following summary.

According to these figures, the economic condition of the average employee improved in all the industries covered from 1909 to 1913, though the improvement was slight in the hand trades, water transportation, agriculture, and "unclassified

<sup>1</sup> DOUGLAS, P. H., and F. LAMBERSON, "The Movement of Real Wages, 1890-1918," *American Economic Review*, pp. 425 and 426, September, 1921.

industries." The grand average shows a gain of 10.6 per cent in purchasing power in those four years. From 1913 to 1918, on the contrary, the grand average undergoes wide fluctuation, caused by the violent changes in wage rates and living expenses, the net effect of which was a decline of about 5 per cent of the purchasing power enjoyed in 1913. This decline, however, was confined to four industries—government, whose enlistment of millions of soldiers brought down the average compensation sharply in 1918; public utilities, which suffered to a peculiar degree from inability to raise their selling prices and which largely increased the proportion of their female employees; the unclassified industries; and banking, in which salaries did not advance so steadily as the cost of living. On the other hand, notable gains were scored by employees of mines, factories, railways, and water transportation.<sup>1</sup>

**20. Increase in Real Wages from 1922 to 1929.**—During the postwar decade, at least in the period between the minor depression of 1921 and

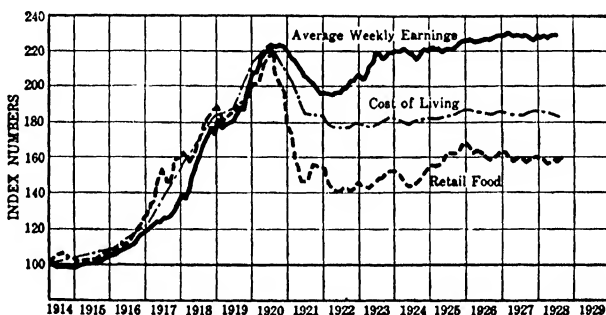


CHART 23.—Increase of real wages of factory workers in New York State (1914 to 1928). (Reproduced by special permission from *Bulletin of the National City Bank*, p. 170, November, 1928.)

This chart was prepared from data of the New York State Department of Labor and may be taken as representative of the trends of money wages, costs of living, and real wages.

the major depression of 1929 to 1933, a decided increase in the real wages of nearly all groups of workers took place. Although great differences of opinion exist as to the course of real wages during the war-time period of inflation, considerable unanimity prevails as to the upward trend of real wages during the period of relative stability in commodity prices from 1922 to 1929. Again, whereas wide divergences existed among various groups during the period of war-time inflation, the postwar increase in real wages was fairly general and extensive.

The increase of real wages in industry during the first postwar decade is illustrated in Chart 23, which traces the course of average weekly earnings of New York factory workers, that of costs of living, and that of retail food prices from 1914 to 1928. From 1914 to 1920, costs of living and money earnings rose at about the same rate to over twice their 1914 levels. In the deflation of 1920 to 1921, however, costs of

<sup>1</sup> National Bureau of Economic Research, "Income in the United States," p. 102.

living, especially retail food prices, fell farther and faster than money earnings. Consequently, there was a decided gain in the real wages of factory workers in these two years. In the period from 1922 to 1928, the index of costs of living remained almost level, whereas the index of average weekly earnings rose rapidly during 1922 and 1923, and slowly but surely from 1925 to 1927. This increasing spread between the index of money earnings and that of costs of living pictures the postwar increase in the real wages of factory workers.

A similar study by the National Industrial Conference Board gives a somewhat different picture of the period from 1914 to 1920 but tells the same story from 1920 to 1927. This graph is reproduced in Chart 24.

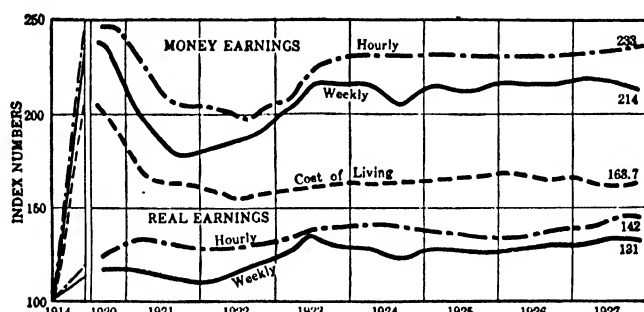


CHART 24.—Index numbers of hourly and weekly money and real earnings and cost of living of wage earners in manufacturing (25 industries) (base—July, 1914 = 100 per cent). (Reproduced by courtesy of National Industrial Conference Board from "Wages in the United States, 1914-1927," p. 42.)

According to these findings of the National Industrial Conference Board, money earnings of wage earners in manufacturing increased more rapidly than costs of living during the period from 1914 to 1920. Consequently, its index of real wages in industry for 1920 (with the 1914 level as base or 100 per cent) was from 22 to 28 per cent higher than in 1914, computing earnings from hour wage rates, and from 18 to 19 per cent higher, computing earnings from weekly wage rates. However, in 1927, the index of real earnings was 42 per cent above the 1914 level, with earnings computed from hourly wage rates, and 31 per cent above it on a weekly basis of computing earnings.

In short, both these two studies, made by different research organizations, testified to a considerable increase in the real wages of workers in manufacturing industries for the period between the last two economic depressions. However, it will be remembered from the previous chapter that the relative share going to service incomes, as contrasted to property incomes, of total income from manufactures declined in spite of this increase in real wages.

**21. Comprehensive Index of Earnings from 1890 to 1928.**—One of the most comprehensive studies of earnings during the past generation

was that made by Professor Douglas, to one of whose earlier studies reference was made in a previous section. He prepared a composite index of the average annual earnings of all employed workers from 1890 to 1928. The following heterogeneous occupations were lumped together: workers in manufacturing, employees of steam and street railroads, of telephone and telegraph companies, of gas and electric companies, clerical and salary workers in manufacturing and rail transportation, coal, postal and Federal employees, teachers, ministers, and farm laborers. Their average annual earnings were converted into index numbers of money and real earnings, with the 1914 level as the base, or 100 per cent.

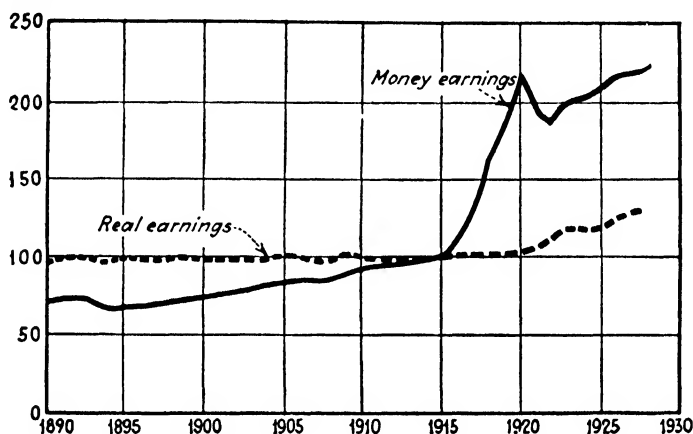


CHART 25.—General trends of money earnings and real earnings (1890 to 1928) (Base—level of 1914 = 100 per cent). (Prepared from indices of Paul H. Douglas, given in "Real Wages in the United States, 1890 to 1926" and those of Douglas and Jennison, given in "The Movement of Money and Real Earnings in the United States, 1926 to 1928." Quoted in "Recent Social Trends," vol. 2, p. 820.)

The most striking features of this index of Professor Douglas,<sup>1</sup> pictured in Chart 25, are (1) the absence of any great increase in real earnings from 1890 to 1922, during which long period his index varied only from a low point of 96 to a high point of 108, and (2) the sharp rise thereafter from an index of 108 in 1921 to one of 132 in 1928. Interesting variations took place in the prewar years, but there was no important, general, long-continued trend. However, the postwar gains in real earnings before 1929 were remarkable. For illustration, the index of real earnings for 1928 was almost a third above that for 1917 or 1914, which was about the same as that for earlier years as far back as 1890.

**22. Decline in Wages during the Great Economic Depression.**—The economic depression of 1929 to 1933 brought a precipitous decline in

<sup>1</sup> DOUGLAS, P. H., "Real Wages in the United States, 1890 to 1926," and DOUGLAS and JENNISON, "The Movement of Money and Real Earnings in the United States," 1926-1928, quoted in "Recent Social Changes," vol. 2, p. 820.

money earnings. For some economic classes, money earnings fell farther and faster than costs of living, but for others there was a lag which permitted a temporary or slight increase in real wages. For the millions of unemployed, however, this decrease in costs of living meant little or nothing, because of the decline or loss of purchasing power due to irregular employment, underemployment, or total unemployment.

Chart 26 shows the effects of the great depression on employment and wages. It will be noted that employment by 1932 or 1933 had fallen to about 60 per cent of its predepression level. Moreover, according to these index numbers of the U. S. Bureau of Labor Statistics, money wages, as represented by combined payrolls of a large number of

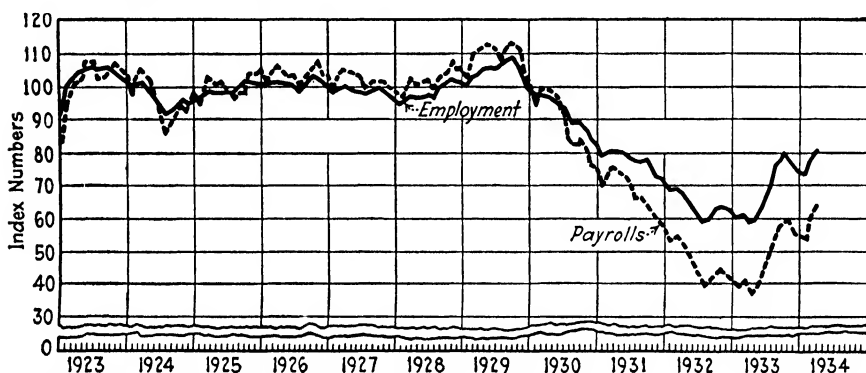


CHART 26.—Employment and payrolls (1923 to 1934) (Base—three-year average 1923–1925 = 100 per cent). (Prepared from data covering the Manufacturing Industries Compiled by the Bureau of Labor Statistics, United States Department of Labor. Reproduced from *New York Times*, Sunday, Apr. 22, 1934.)

manufacturing industries, had fallen even farther and faster by 1932 to 1933, to only about 40 per cent of their predepression level. The difference in the rate of decline is due to the fact that many so-called “employed workers” were on part-time work.

The study of Kuznets, under the auspices of the National Bureau of Economic Research, of the national income from 1929 to 1932, referred to in the two preceding chapters, gives some interesting information concerning the effect of the great depression on the number of people employed and on their real and money wages. This information is summarized in the table on page 166. Part of it is graphically represented in Chart 27, page 165.

It would appear that the total number of all employees declined by 10 millions, or from 35 millions in 1929 to 25 millions in 1932, or by 28 per cent. A more intensive study in selected industries reveals that the decline in employment there was considerably greater among wage earners than among the salaried groups, being over 40 per cent for the former and only 30 per cent for the latter.

An analysis of per capita wages paid reveals a decline in per capita wages of salaried employees in selected industries from \$2,567 in 1929 to \$2,175 in 1932, or by only 15 per cent; whereas per capita earnings of wage earners in the same industries declined from \$1,406 in 1929 to \$959 in 1932, or by over 30 per cent. Not only were wage earners in a lower income group than salaried employees, but also they suffered twice as great a decline in money wages. While the decline in salaries was not quite so great as that in the cost of living and their real wages increased

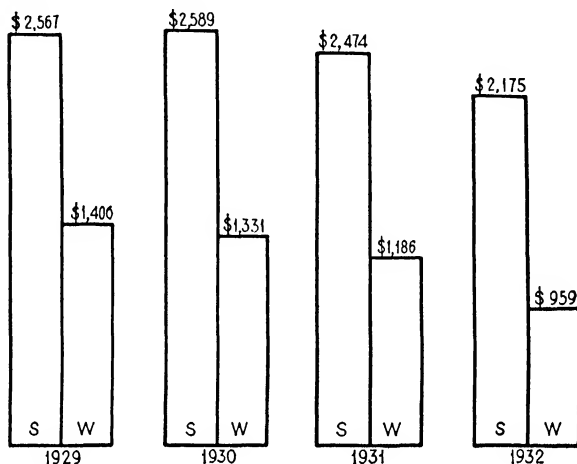


CHART 27.—Per capita income of salaried employees and wage earners in selected industries (1929 to 1932). (From survey by Simon Kuznets of "The National Income, 1929 to 1932," National Bureau of Economic Research.)

See table on page 166.

slightly, money earnings of wage earners decreased far more rapidly than costs of living, and hence their real wages suffered. Per capita income for all employees declined from \$1,475 in 1929 to \$1,199 in 1932, or about 20 per cent, which just about equaled the decline in costs of living as shown by index of U. S. Bureau of Labor Statistics. However, such a statement is meaningless, if not actually inaccurate, for this average is made up of two different groups experiencing opposite tendencies. Real wages went up for salaried groups and down for wage earners. Again, it refers merely to the wages of those who had been able to keep employment. Workers out of jobs naturally received no wages at all.

### 23. Variations in Tendencies of Real Wages of Different Groups.—

The trend of the average annual wage of all workers is almost meaningless, because of the disparity in the gains and losses of different groups. Indeed, statisticians are continually warning economists against lumping together heterogeneous samples displaying different characteristics. However, it is sometimes desirable to know the trend of service incomes

as a whole, in contrast to that of property incomes as a whole. It is equally interesting to compare one service income with another, and one property income with another. In the latter category are rent,

NUMBER OF PEOPLE ENGAGED<sup>1</sup>

	Number in thousands				Percentages of 1929			
	1929	1930	1931	1932	1929	1930	1931	1932
Salaried employees (selected industries) <sup>2</sup> .....	2,221	2,187	1,915	1,556	100.0	98.4	86.2	70.0
Wage earners (same industries as in line 1) <sup>2</sup> .....	12,219	10,677	8,890	7,131	100.0	87.4	72.8	58.4
Salaried employees or wage earners (all other industries).....	20,765	20,057	18,544	16,767	100.0	96.6	89.3	80.7
All employees.....	35,205	32,921	29,349	25,453	100.0	93.5	83.4	72.3
Entrepreneurs.....	9,020	8,889	8,704	8,677	100.0	98.5	96.5	96.2
All gainfully employed.....	44,225	41,809	38,053	34,131	100.0	94.5	86.0	77.2

KUZNETS, SIMON, "The National Income, 1929-1932," National Bureau, Economic Research Bulletin 49, p. 7, June 7, 1934.

<sup>1</sup> In this table, and all subsequent tables relating to number of people employed or engaged, the annual estimates are averages for the calendar year. The numbers represent in some industries a full-time equivalent.

<sup>2</sup> Includes mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation.

PER CAPITA INCOME OF EMPLOYEES AND THE COST OF LIVING<sup>1</sup>

	Per capita income, dollars				Percentages of 1929			
	1929	1930	1931	1932	1929	1930	1931	1932
Salaried employees (selected industries) <sup>2</sup> .....	2,567	2,589	2,474	2,175	100.0	100.9	96.4	84.7
Wage earners (same industries as in line 1) <sup>2</sup> .....	1,406	1,331	1,186	959	100.0	94.7	84.4	68.2
Salaried employees or wage earners (all other industries).....	1,399	1,386	1,328	1,211	100.0	99.1	94.9	86.6
All employees.....	1,475	1,448	1,360	1,199	100.0	98.2	92.2	81.3
Bureau of Labor Statistics cost of living index.....					100.0	97.4	88.9	80.4

<sup>1</sup> KUZNETS SIMON, "The National Income, 1929-1932," The National Bureau, Economic Research Bulletin 49, p. 8, June 7, 1934.

<sup>2</sup> Includes mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation.

interest, and profits, discussed in the previous chapter. In the former are salaried and wage-earning groups, clerical workers and manual laborers, farm hands in the country, and industrial workers in the cities.



Finally, the wages of various industrial groups, compared one with another, present important differences and interesting variations.

The real wages of clerical and small salaried workers increased during the period of falling prices in the nineties but decreased under the rising prices of the first two decades of the twentieth century. During the period of war-time inflation, the real wages of clerical and small-salaried workers shrank markedly. On the other hand, the real earnings of some

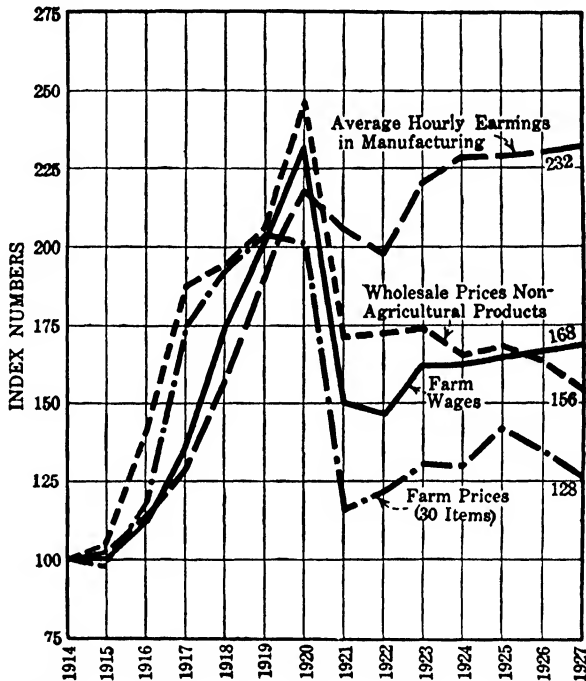


CHART 28.—Wages and prices in agriculture and manufacturing (1914 to 1927) (base—level of 1914 = 100 per cent). (Reproduced by special permission of National Industrial Conference Board from "Wages in the United States, 1914-1927," p. 84.)

wage earners in manufactures increased, because their money wages rose even faster than costs of living. On the other hand, the postwar periods of deflation and depression, which brought reduced employment and wages to many industrial workers, brought an increase in real wages to some well-entrenched salaried groups through lowered costs of living.

During the period of prosperity between 1921 and 1929, the gains of industrial groups stood out in sharp contrast to the losses of agricultural groups. Farmers, farm owners, and farm workers suffered severely from the postwar deflation—even more severely than did industrial groups.

Chart 28 pictures the course of average hourly earnings in manufacture, farm wages, farm prices, and the wholesale prices of non-agricultural products from 1914 to 1927. It will be noted that, from 1914 to 1920, the

indices of these four items rose rapidly and paralleled each other somewhat. The only significant difference is that the index of farm prices never rose to so high a point as the index of non-agricultural prices. Again, in 1920 and in 1921, the indices of farm prices and of farm wages fell to much lower points than did the indices of the prices of non-agricultural goods and of manufacturing wages. The tendencies of these four items in later years, however, were very divergent. Farm wages recovered somewhat from 1922 to 1927, particularly in the first year. Farm prices recovered from 1921 to 1925 but declined again from 1925 to 1927. But the most remarkable feature of this study is the fact that, in spite

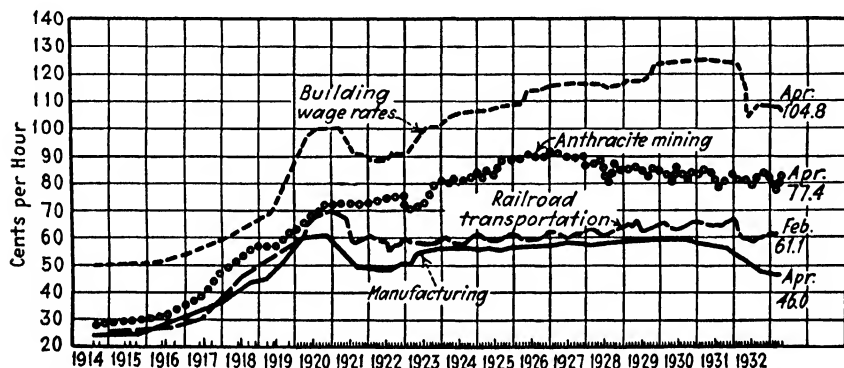


CHART 29.—Hourly wages by industrial groups (1914 to 1933). (Reproduced by courtesy of National Industrial Conference Board.)

of a considerable decline in the index of prices of industrial products from 1923 to 1927, the index of average hourly wages in manufacture rose slowly but steadily.

Marked contrasts stand out not merely between agricultural and industrial workers, but also among various groups of industrial wage earners. This can be illustrated by a study of the National Industrial Conference Board of the wage rates in four important industrial groups, *viz.*, the building trades, anthracite mining, railroad transportation, and manufacturing. The graph is reproduced in Chart 29. It shows a general increase in all wage rates from 1914 to 1920, a slight recession in most in 1921, relative stability in all from 1921 to 1930, followed by a decline in most in 1931 and 1932. Wage rates were highest in the building trades, and even increased therein from 1922 to 1929, but also declined most sharply therein in the depression year of 1932. Railroad transportation and especially manufactures were characterized by the lowest wage rates. Anthracite mining occupied a middle position in comparison of its wage rates with those in the other three occupations. Again, its wage rates were most stable.

The study of wages by Professor Douglas, referred to before, also reveals striking differences in the average annual earnings of employed

workers in specific industries or occupations. This table is reproduced here merely for reference. Wage differences among these various groups at any given time and differences in their wage trends over a period of time are apparent. According to these findings of Douglas, agricultural workers have been consistently more poorly paid than those in industry. A part of this discrepancy may be explained away in terms of other commodities and services, such as board or rent not ordinarily received by industrial wage earners but received by farm workers in addition to their money wages.

AVERAGE ANNUAL EARNINGS OF EMPLOYED WORKERS IN SPECIFIED INDUSTRIES AND OCCUPATIONS, 1910 TO 1928

Year	Manufacturing	Public utilities	Coal mining	Government employees	Clerical and salary, manufacturing, and railroad	Farm labor
1910	\$ 558	\$ 655	\$ 556	\$1,108	\$1,156	\$336
1911	537	678	556	1,116	1,213	338
1912	550	691	600	1,128	1,209	348
1913	578	725	621	1,136	1,236	360
1914	580	755	549	1,140	1,257	351
1915	568	774	591	1,152	1,267	355
1916	651	821	725	1,211	1,359	388
1917	774	930	966	1,295	1,477	481
1918	980	1,292	1,227	1,380	1,697	604
1919	1,158	1,413	1,150	1,520	1,914	706
1920	1,358	1,662	1,435	1,648	2,160	810
1921	1,180	1,523	1,137	1,593	2,134	522
1922	1,149	1,486	965	1,625	2,067	508
1923	1,254	1,495	1,339	1,658	2,126	572
1924	1,240	1,500	1,251	1,708	2,196	574
1925	1,280	1,520	1,173	1,776	2,239	587
1926	1,307	1,525	1,339	1,823	2,310	596
1927	1,299	1,542	1,197	1,850	.....	591
1928	1,325	1,558	1,239	1,940	.....	587

DOUGLAS, PAUL H., "Real Wages in the United States, 1890-1926," and DOUGLAS and JENNISON, "The Movement of Money and Real Earnings in the United States," quoted in "Recent Social Trends," vol. 2, p. 817.

The money wages of employed manufacturing workers rose rapidly from 1915 to 1920, receded considerably in 1921 and 1922, and climbed again from 1922 to 1928. On the other hand, wages of clerical and salaried groups in manufactures and railroads rose more slowly from 1915 to 1920 but held their gains better from 1920 to 1922, after which a similar slow climb took place until 1928.

The money wage of government employees moved very slowly but steadily throughout the entire period from 1910 to 1928. On the other

hand, money wages of employed coal miners fluctuated widely from year to year.

**24. Real Wages in Various Countries Compared.**—The Statistical Section of the League of Nations has been making comparative studies of wages paid in various countries of the world. These findings as to relative money wages have been refined into relative real wages by expressing them in terms of different costs of living.

RELATIVE REAL WAGES IN VARIOUS CITIES IN 1928<sup>1</sup>  
(General Average Index Numbers)

City	Based on food only	With allowances for rent
Philadelphia.....	192	192
Ottawa.....	162	160
Copenhagen . . . .	109	109
Dublin.....	101	110
London.....	100	100
Amsterdam.....	82	82
Berlin.....	66	61
Paris.....	59	
Madrid.....	55	
Vienna.....	47	53
Lodz.....	47	48
Brussels.....	46	49
Rome.....	45	47
Lisbon.....	30	

<sup>1</sup> Statistical Section of the League of Nations, January, 1928.

One city was selected as typical of each of the countries investigated. London was selected by the league as its basis of comparison. Hence the average real wages of the workers in that city were represented by 100 per cent. The real wages of the workers in other key cities were expressed as percentages of this base.

The unit selected for this comparison has been termed "the basketful of provisions" currently consumed by the workers. Allowances were made for local variations because of some differences in the types of goods consumed by the workers in different lands. Rent also was included as an important element in the standard of living, wherever it was possible to ascertain a comparable unit. The result was as follows just before the great world depression.

From these findings of the Statistical Section of the League of Nations, if it is assumed that the key cities of the various countries are representative of conditions throughout that nation, it would appear that the real wages of the American worker in 1928 were considerably greater than those of his Canadian neighbor, almost twice as great as those of the

Danish, Irish, and English worker, approximately three times those of the German and French worker, approximately four times those of the Austrian, Belgian, and Italian worker, and over six times those of the Portuguese worker.

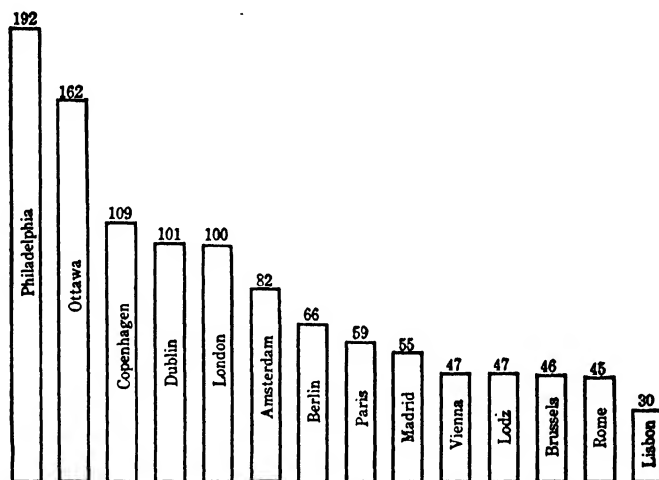


CHART 30.—Relative real wages in various cities in 1928.

See table on page 170.

**25. Summary.**—Labor may be defined as human effort directed toward production. Productive labor results in the creation of utilities, but unproductive labor does not. Some productive labor is socially desirable and some is not; some is legal and some is illegal. Finally, some productive labor is gainfully employed, *i.e.*, working for wages, and some is not.

The working population may be divided into numerous non-competing groups, such as unskilled labor, semiskilled labor, skilled labor, clerical labor, that of professional and business men, and, finally, that of great captains of industry. Passage from one group into a higher one is restricted by the biological fact of inherent differences in individual ability and by the social factor of acquired differences represented by variations in education and opportunity. The relative supply of labor is greatest in the lower groups, whose birth rates are high and whose wages are, therefore, relatively low.

Society may be divided into economic producers and non-producers. Non-producers are represented, on the one hand, by a wealthy leisure class and, on the other hand, by the social debtor groups made up of delinquents, defectives, and dependents. Social unrest arises from the fact that certain individuals with great social responsibilities are forced to become economic producers and to enter the ranks of the gainfully

employed, while others with slight social responsibilities are not required to become economic producers.

Under the wage system the individual enterpriser directs the course of production and assembles the various factors in production. He advances to labor its share of the product of industry in the form of wages. One of the earliest explanations of wages was the subsistence theory, which contended that the wages of workers tended to a subsistence level. This was due to the principle of diminishing returns from land and to the Malthusian law of population. The subsistence theory of wages was succeeded by the wages-fund theory, which regarded wages as a fund of capital advanced to the workers for their subsistence. Wages were determined by the ratio between capital and population.

The modern classical explanation of wages is the marginal-productivity theory, which regards the wages of any labor group as measured by the marginal product of that type of labor. The marginal product is represented by the loss which can be attributed to the subtraction of one laborer from a given combination of factors of production. In other words, the wages within a non-competing group are determined by the relative supply and demand forces for that type of labor.

Many labor leaders have stigmatized the marginal-productivity theory as a mere commodity theory, which explains the determination of wages in the same fashion as the determination of the prices of various commodities. Other critics point out the importance of the bargaining factor in the determination of wages. The marginal product of labor is merely the upper limit, beyond which the employer will not go. On the other hand, he may pay labor less than its marginal product because of the ignorance, immobility, or lack of organization among other groups of workers.

Real wages represent money wages refined in terms of changes in the general price level. It would seem that money wages gradually adjust themselves to changes in the general price level, but there is a serious lag. Hence wage earners tend to profit by a falling price level and to suffer by a rising price level. It is also true that the adjustment of money wages to changes in the general price level takes place more rapidly in the case of organized groups than with unorganized groups. The advantages and the disadvantages of the lag between commodity prices and service prices are also greater in the case of the salaried groups than of the wage-earning groups.

Social wages, in turn, represent real wages further refined in terms of increased industrial productivity. The subsistence theory of wages is a static concept, in support of which there is little evidence in modern America. On the other hand, the social concept of wages is a dynamic or progressive one. Studies of the course of real wages over a long period of time seem to indicate a general trend toward increased real wages.

The worker does seem to be sharing to a considerable, if not a proportionate, extent in our increased industrial productivity. Although glaring economic inequalities and dire poverty have persisted, there is little inductive evidence to support the Marxian contention that the lot of the worker is becoming worse and worse.

The existence of various non-competing groups seems to make a general theory of wages meaningless and a general trend of wages difficult to establish. The real wages of different groups show dissimilar tendencies at the same time, *e.g.*, the salaried groups as compared with the wage-earning groups, and the agricultural groups as compared with the industrialists. Even within these large divisions there are numerous non-competing groups, whose wages show divergent tendencies at the same time.

The determination of the wages of any given group is difficult because of the existence of unemployment and irregular employment, as well as because of changes in the general price level. Wage rates are no more indicative of actual earnings than are money wages indicative of real wages over a period of time. Wage rates represent hourly or daily wages, but actual earnings represent the total wages received over a longer period of time, such as a month or a year.

The course of real wages during the past century is uncertain, but the consensus of opinion is that the long-run trend has been upward in spite of minor and temporary fluctuations. Great gains were made in the period of falling prices in the closing decades of the nineteenth century. On the other hand, it must be remembered that falling prices are frequently accompanied by business depressions. Hence this generation of increasing real wages was characterized also by periods of unemployment and temporary recessions in actual earnings.

Just before the close of the past century, the general price level began to move upward. Prices rose gradually during the next two decades. This period was one of retrogression in the movement of real wages. For most groups it was one of absolute as well as relative losses.

The period of the World War and the two following years was one of inflation and rapidly rising prices, following which prices fell precipitously in 1920. Although numerous groups of organized wage earners made considerable gains from 1914 to 1920, others experienced losses. The salaried groups suffered greatly during the period of inflation but recovered somewhat in 1921 and the following years.

The postwar decade was one of greatly increased industrial production. Although the agriculturalists suffered somewhat, most service incomes increased. Remarkable gains in the real wages of workers in industry were achieved in the decade before 1929.

The great economic depression of 1929 to 1933, however, was accompanied by a severe decline in money wages and real wages, particularly

among industrial workers. Unemployment and irregular employment reduced actual earnings even further.

### Collateral Reading

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### Questions for Discussion

1. Define labor and illustrate different types.
2. Explain meaning and significance of non-competing labor groups and the social pyramid.
3. What do you understand by the wage system?
4. Show the relationship between the subsistence theory of wages, the principle of diminishing returns from land, and the Malthusian law of population.
5. Indicate some of the offsetting influences to the principle of diminishing returns and the Malthusian law of population.
6. State the wages-fund theory and criticize it.
7. Differentiate between the marginal- and the specific-productivity theories of wages. Criticize each.
8. What do you understand by the bargaining theory of wages? Can it be reconciled with the marginal-productivity theory of wages?
9. What evidence can you present to prove or to disprove the Marxian belief that the lot of the worker is becoming worse and worse?
10. Differentiate between money wages and real wages, and between real wages and social wages.
11. Distinguish between wage rates and earnings.
12. What are the effects of rising and falling prices on real wages? Illustrate. Enumerate certain compensating influences.
13. Contrast the gains and losses of the wage earners with the salaried groups and the industrialists with the agriculturalists.
14. Show the divergent tendencies of different service incomes during the World War.
15. What reasons can you give for the great gains in the real wages of workers in industry between 1922 and 1929?
16. Were wage earners participating proportionately in this increased industrial output before 1929?
17. Show the effects of the depression of 1929 to 1933 on wage rates and earnings of various labor groups.

### Topics for Investigation

1. Marxian or labor theory of value.
2. Hobson's theory of wages.
3. Taussig's "discount theory" of wages.
4. King's analysis of real wages from 1850 to 1910, both method and conclusions.
5. Hansen's analysis of the course of real wages from 1820 to 1923.
6. Contrast various analyses of the course of real wages during the World War.
7. Douglas' various analyses of wages, as to both methods and findings.
8. Recent wage studies of the National Industrial Conference Board.
9. Discrepancies between wage rates and actual earnings in periods of prosperity and periods of depression.

## CHAPTER VII

### POVERTY AND SUBNORMAL STANDARDS OF LIVING

#### THE INADEQUACY OF FAMILY WAGES

**1. Nature of Poverty and Pauperism.**—Poverty is one of the oldest economic maladjustments. 'The prophets of the Old Testament indicted the rich for their exploitation and oppression of the poor. Revolution and social unrest still have their seeds in poverty and economic inequality.'

It is necessary that our terms be defined at the very outset. That class in society with the smallest income, and consequently with the lowest standard of living, is usually referred to as the "poor." The advance of civilization has increased economic prosperity and raised standards of living in general. The well-to-do classes of modern nations live in a state of luxury undreamed of by the princes and nobles of the Middle Ages. Likewise the poor of today enjoy comforts and conveniences which were not possessed by corresponding classes in an earlier society.

Because poverty is a relative term, at any given time and place there are the comparatively rich and the comparatively poor. In spite of economic progress, the poor, "in the sense of those in the lowest economic group," have persisted because of the continuation of economic inequality and the division of society into various economic groups. The poor in this comparative sense we shall always have with us, unless society should be modeled on some communistic plan. The elimination of the poor in the sense of the lowest economic group is as impossible as the elimination of the last train coach, which is frequently the victim in railroad wrecks.

On the other hand, the term "poverty" may be used in a less comparative sense to refer to those individuals or families whose incomes are so small, and whose standards of living consequently are so low, that neither health nor working efficiency can be maintained. Although standards of living also are relative, it is possible at any given time and place to determine some minimum standard of decent living. Thus social pathologists regard poverty as a social disease and the poor as abnormal members of society. In this sense, poverty can be reduced greatly, if not entirely eliminated.

In contradistinction to the poor, paupers are those individuals in almshouses or those families in their own homes who receive assistance from charitable organizations. The pauper class is part of the social

debtor group, because pauperism is essentially a state of dependency. Poverty and pauperism are not synonymous, and those individuals who live below the poverty line but who are too proud to ask for help should not be referred to as paupers. There is a strong tendency, however, for the poor to become paupers. Indeed, poverty has sometimes been compared with a narrow and treacherous foot path around the morass of pauperism.

The treatment of paupers and other members of the social debtor groups belongs within the domain of sociology. But the economist, as well as the sociologist, must concern himself with the problems of sub-normal standards of living and inadequate wages. Objective causes of poverty, such as low wages and unemployment, which lie within the economic organization, are definitely within the field of applied economics.

**2. Extent of Poverty and Pauperism.**—The extent of poverty is difficult to determine, for there are no absolute standards by which deviations from the normal can be measured. Nevertheless, it is apparent that poverty is a chronic, as well as an acute, problem of economic society. Although varying in intensity from time to time and from place to place, it never entirely disappears. Again, poverty displays itself in a more concentrated form in the cities than in the country, and in more aggravated needs in the winter months than in the summer.

Two of the earliest investigations of the extent of poverty were made over a generation ago by Booth in London and by Rowntree in York, England. These early investigators<sup>1</sup> contended that 30.7 and 27.8 per cent, respectively, of the people of these two English cities at that time were living in poverty. If these conclusions were true and typical, about one-third of the inhabitants of English cities at the turn of the last century were living under conditions of poverty.

That the situation has materially improved in British cities is attested by two more recent studies.<sup>2</sup> In 1914, only 12.6 per cent of the cases studied had incomes insufficient to maintain the minimum standard of living prescribed by Rowntree, and, in 1925, only 3.6 or 6.5 per cent of the cases then studied were below the same standard. The extension of comprehensive programs of social insurance in Great Britain, rather than enormously increased national prosperity, accounts in large part for this striking reduction of poverty in the United Kingdom.

As a result of a similar pioneer investigation in our own country, Robert Hunter estimated in 1904 that the proportion of poverty in our large cities and industrial centers rarely fell below 25 per cent. For the country at large he estimated that the poverty group comprised

<sup>1</sup> BOOTH, C., "Life and Labour of the People," vol. 2, chap. 2, 1891.

ROWNTREE, B. S., "Poverty: A Study of Town Life," chaps. 4 to 5, 1904.

<sup>2</sup> BOWLEY, A. L., and M. H. HOGG, "Livelihood and Poverty," 1914.

———, "Has Poverty Diminished?" 1925.

from 14 to 20 per cent of the entire population. Although the poverty rate may be smaller in the rural sections than in the urban, recent investigations make this very doubtful. Urban poverty is rather conspicuous, but there may be dire poverty in many obscure rural communities. For society at large, the expression "the submerged tenth" is probably no exaggeration of the extent of poverty. Indeed, Hunter was led by his inductive field work to believe in the existence of an iron law of wages for many groups of workers. He contended that the wages of unskilled laborers in this country rarely rose above the poverty line.<sup>1</sup>

The new industrial revolution in the United States was lauded as the final conquest of poverty in this country. However, our great national prosperity witnessed only a modest reduction in poverty, because increased industrial efficiency was not accompanied by increased industrial security. The great depression from 1929 to 1933 was productive of an unprecedented increase of poverty, pauperism, and relief work, public as well as private.

The extent of pauperism is as difficult to determine as that of poverty. Many individuals and families receive various forms of assistance, of which no record and little recognition are given. For generations past, a vast army of dependents have been cared for by outdoor relief of which there has been no accurate accounting. Societies for the organization of charity have vainly attempted to bring some sort of order out of this chaos, in the belief that one of the first essentials of scientific method is the keeping of complete and accurate records.

Indoor relief has often been as haphazard as outdoor relief. Institutional records of admission and dismissal have often been poorly kept, if at all. Again, the almshouse has frequently sheltered such divergent groups as dependent old folks and dependent children, the crippled and the insane, the infirm as well as the shiftless. Recent United States censuses have placed the number of dependents in our various institutions at about the million mark, but the total number of paupers and semi-dependent individuals must surely approximate several millions.

**3. Meaning of Standard of Living.**—The poor group has been defined not merely as those classes receiving the smallest incomes, but also as those families whose incomes are inadequate to permit the maintenance of a decent standard of living. Consequently, it is necessary to analyze what is meant by the expression "standard of living" and to see what constitutes at a given time and place a minimum standard of living! After that has been done, an effort will be made to test the wages of adult male workers, in order to see whether or not they are sufficient to permit fathers to maintain their families in a comfortable or decent standard of living on their own wages.

<sup>1</sup> HUNTER, R., "Poverty," pp. 55-56.

'A standard of living may be defined as a measure of economic consumption, *i.e.*, as the amount of income which an individual or a family consumes. It may be regarded as the quantities and qualities of food, clothing, shelter, and various other commodities and services, which an individual, a family, or group consider necessary to happiness.'

Standards of living are generally estimated in terms of money, and experts speak of the financial costs of maintaining various standards of living in different times and places. This estimate is generally based on family, rather than individual, expenditure, for the family is the usual unit of economic consumption!

'Economic goods may be divided roughly into three groups—necessities, comforts, and luxuries. Exact social measurements are impossible, and these three component elements of standards of living, like standards of living themselves, are not sharply distinguishable but gradually fade into each other like the colors of the spectrum!

The standard of living of an unskilled laborer may include little more than the bare necessities of life, while that of his employer may include numerous luxuries. Moreover, what is a necessity to one individual may be regarded as a luxury by another. There is one standard of living for Mrs. Wiggs of the Cabbage Patch and another for her friend the Christmas Lady. Between these two extremes are innumerable variations and gradations, involving all degrees of comforts.

**4. Relative Nature of Standards.**—'Standards of living vary not only among different income groups, but also among different nations. Thus we hear of an American standard of living, as compared with a European or a Chinese standard of living. Standards of living vary also from age to age, and the comforts of a middle-class family in England today are very different from those of the Elizabethan period!'

'There is no such thing as a standard of living in an absolute sense. In both its qualitative and quantitative aspects a standard of living is a relative concept. There is not one standard of living, but there are many. They vary greatly from time to time and expand as an individual or a group acquires additional desires and purchasing power!'

'A standard of living is both a personal and a social concept. Although each individual has personal tastes and desires, they are chiefly the result of his physical and social environment.' For illustration, the Esquimo devoured the tallow candles of the explorers and the people of certain Mediterranean countries still regard snails as a delicacy.

A standard of living is essentially those things to which we are accustomed. Dissatisfaction and unrest come only after a comparison with other and higher standards of living. Thus the savages of Africa never realized their blackness until the white man appeared in their midst. People do not miss what they have never enjoyed. If it were not for this fact, as well as the existence of tremendous mental and social

inertia, economic unrest would be more acute and political revolutions more common. It is significant that most revolutions have been preceded by an intellectual awakening, although precipitated later by acute dissatisfaction with existing conditions.

Poor people may be happier than rich people, because happiness is essentially a state of mind, rather than a state of material well being. Hence the philosopher may object to a commodity measurement of welfare and insist on psychological tests. The economist, however, finds it impossible to measure any such subjective concept as happiness.<sup>a</sup> Moreover, for most individuals wealth is one very important element in welfare. Consequently, the economist is forced to content himself with measuring standards of living in terms of commodities and services consumed. Prosperity is commensurable, but happiness is not. Wealth is definable, but welfare is not. Hence our materialistic concept of standard of living. 'Although man does not live by bread alone, the economist relinquishes spiritual elements in standards of living to other students who are especially interested in ethics and aesthetics?'

**5. Conditioning Elements.**—Standards of living are influenced both by what one desires and by what one can purchase. 'Human wants are on one side of the scale and income or wages on the other side. Differences in incomes produce differences in standards of living. Economic inequality permits the rich man to enjoy many luxuries, whereas the poor man cannot obtain the bare necessities of life!'

The general price level is a third conditioning element. Thus economists differentiate between real wages and money wages. A miser, like Silas Marner, might find pleasure in counting his gold, but what a normal individual desires is the commodities or services which he can enjoy.

Price inflation requires an equivalent increase in money wages if the customary standard of living is to be maintained. It has been said that prices go up the elevator, while wages slowly climb the stairway. On the other hand, price deflation, which increases the purchasing power of the workers' wages, is often accompanied by an economic depression with consequent loss of employment. Because of the close connection between price levels and standards of living, Professor Commons has called the fluctuation of the currency our greatest labor problem.

**6. Characteristics of Economic Wants.**—Just as there are great differences in income, so there are great differences in individual desires. The satisfaction that different individuals receive from the consumption of the same commodity or service differs enormously. Individual tastes vary, and consumption values are subjective.

'The measurement of standards of living is rendered difficult by the diversity and varying intensity of human wants. One workman may regard tobacco as a necessity and curtail his consumption of clothing in order to gratify this desire. On the other hand, a factory girl may

regard silk stockings and fine clothes as essential parts of her standard of living. Consequently, she may stint her food allowance in order to purchase stylish garments. One successful business man may desire to accumulate rare works of art, while another strives to build racing automobiles and pleasure yachts.

Moreover, human wants, reflect social, as well as individual, differences. Thus, the wants of a given individual are determined not only by his personal desires, but also by the standards of living of the group to which he belongs! A man may choose his own hat, but the wearing of a hat or a turban or no hat at all is predetermined for him. In short, individual wants are socially conditioned to a considerable degree.

A third characteristic of human wants is their power of infinite expansion. As the income of an individual increases, his wants develop proportionately. The newly rich audibly wonder how individuals can live without certain things to which they themselves have scarcely become accustomed. Civilization has brought to primitive peoples such new desires as those for alcoholic liquors, cigarettes, cotton cloth, and talking machines. The new freedom brought to modern women the habit of smoking cigarettes, which commercial advertising pictured as fashionable.

In the continued consumption of the same economic good, the principle of diminishing utility operates. After a certain point has been reached, additional units of a good yield less and less gratification until complete satisfaction has been reached. Hence, an increasing variety of wealth is desirable. It is also true that less inequality in the division of the national income would permit an increase of total consumption utility for society as a whole.

**7. Family Budgets.**—Just as a nation or city must balance its expenditures against its receipts from taxation, so the average family must balance its purchases against the family wages. Any attempt to do this systematically may be called "making a budget."

Economic consumption was formerly neglected, but of recent years a number of excellent studies have been made of family budgets. The commonly accepted unit of measurement is the family of five, consisting of father, mother, and three dependent children.

The largest single item in the family budget has been found to be expenditure for food. This ranges from about 50 per cent of the total expenditure in the lowest income group to about 25 per cent in the case of families in moderate circumstances. Rent and clothing vie for second place in the expenses of most families studied, and each averages from 15 to 18 per cent of the total expenditure. The amount spent for rent increases as we go up the social scale, but its proportion of the total income is remarkably constant. In fourth place is the expenditure for light and heat, which varies from 5 to 8 per cent of the total cost of living. Transportation may or may not be an important item in the expense

account, according to the locality considered. The amount left for all other purposes varies from nothing in the case of the very poor to almost 50 per cent in the case of those in moderate circumstances.

**8. Engel's Law.**—The amount spent for the necessities of life, such as food and clothing, increases as we ascend the various income groups. However, the percentage of the total income spent for such purposes declines. As we go from the poorer groups to those in comfortable circumstances, the proportion, as well as the amount, spent for all other purposes, steadily increases. Indeed, this margin of expenditure above the actual necessities of life is regarded as the test of a desirable standard of living. In it are included expenditures for recreation, amusement, insurance, saving, and incidentals.

A German statistician by the name of Engel in his study of Prussian family budgets was the first to point out the varying proportions of income spent for various items by different income groups. Hence this relationship is known as "Engel's law." It states those generalizations concerning consumption which have just been observed. The higher income groups spend more for the necessities of life than do the poor groups, but this relative part of their entire budget is less. On the other hand, their greater income permits them to spend relatively, as well as absolutely, more for incidentals and comforts than do those in poorer circumstances.

**9. Differences in Standards of Living.**—A study of family budgets reveals other interesting differences in standards of living. As a rule, the standards of living of our native communities are higher than those of our foreign born, and the standards of the white communities are higher than those of the colored. These differences in standards of living reflect chiefly differences in wages.

Within the same income group, however, there are interesting differences in family budgets. Some immigrant groups, for example, spend relatively more on food and others relatively more on clothing. Certain groups are very improvident, while others are parsimonious. Within a great city there may be immigrant colonies and Negro settlements which afford interesting comparisons in standards of living. Each group clings to its old customs, as can be seen in their characteristic foods, clothing, and forms of recreation. The new generation shows its Americanized character by qualitative and quantitative changes in its standards of living.

City and country also afford an interesting comparison. City workers formerly spent a relatively greater portion of their wages on clothing than did those in the country. Thus a comparative study of their family budgets would show different sets of consumption values. In general, the cost of living in the country is lower than that in the city. Consequently, a higher standard of living can be maintained on



the same monetary income. A small frame house can be rented in the country for the same amount needed for a few rooms in the city. Again, the cost of some foods is relatively lower in the country. The development of modern marketing facilities, however, has tended to make the purchases of some foods not only more convenient, but also actually cheaper, in the cities than in the surrounding country. Investigators have likewise found interesting differences in the costs of living among various cities.

**10. Changes in Standards of Living.**—Studies of American family budgets show interesting changes, as well as differences, in standards of living. Workmen and their dependents have been purchasing an increasing amount of new commodities and services, in addition to the customary necessities of life. A comparison between older and newer studies of family budgets in the lower income groups shows a relative decline in expenditures for food and rent and a relative increase in expenditures for clothing and miscellaneous commodities.

This relative change in consumption habits in favor of clothing and sundries, and at the expense of food, shelter, heat, and light, can be seen in the following table, which compares the Federal budget studies of 1901 with those of 1918 and 1919. Each covered families in the lowest economic strata, the former those with incomes between \$300 and \$400 and the latter those with incomes below \$900.

FAMILY BUDGETS COMPARED<sup>1</sup>

Items	Percentage of total	
	1901	1918-1919
Food.....	48.0	44.1
Clothing.....	10.0	13.2
Shelter.....	18.6	14.5
Fuel and light.....	7.1	6.8
Miscellaneous.....	16.0	21.4

<sup>1</sup> "Recent Social Trends," vol. 2, p. 825.

The same tendency will be shown in a comparison of the minimum standard of living estimate for 1914 with that for 1919, given on page 185.

**11. Classification of Standards of Living.**—Any attempt to classify standards of living is bound to be rather arbitrary. Nevertheless, numerous studies of family budgets have attempted to distinguish among different types of standards of living. Thus there is first the pauper-poverty standard of living which represents a condition barely above dependency. There is no sharp line between it and the social debtor classes. In the second place, is the minimum-of-subsistence level which implies merely an animal existence with just enough to satisfy

the chief physical wants. It is a theoretical concept to which economists have sometimes resorted. In the third place, is the minimum of health and comfort standard, which implies an income sufficient to maintain health and working efficiency with some provision for comforts and social insurance. It is the first division definitely above the poverty group. In the fourth place is what has been termed a "standard of health and decency." It has also been termed a "normal standard" of living<sup>1</sup>

**12. Elements in Minimum Standard of Living.**—A number of attempts have been made to draw up minimum standards of living and to express them in terms of money. The quantity budget, however, gives amounts and kinds of food, shelter, clothing, and miscellaneous commodities and services for the maintenance of a desired standard of living, as contrasted to the cost budget which expresses the same items in monetary terms.

A pioneer study of the minimum quantity standard of living, made by the U. S. Bureau of Labor Statistics, was based on a family of five (to be exact, 4.9 persons or the equivalent of 3.3 adults). Its requirements as to a minimum quantity standard of living may be summarized as follows: (1) a sufficiency of nourishing food, with especial reference to the health of the children; (2) housing in low-rent neighborhoods with the minimum number of rooms consistent with health and decency; (3) the upkeep of household equipment; (4) clothing of substantial quality but with slight regard for fashion; (5) miscellaneous provisions for such items as carfare, insurance, medical attention, modest contributions to church and fraternal organizations, and limited expenditure for amusement.<sup>1</sup>

**13. Costs of Maintaining Minimum Standard.**—The table (p. 185) of the U. S. Bureau of Labor Statistics gives a similar standard of living expressed in monetary units. It is interesting to note the relative budgetary importance of the various items and also to see how the increase in prices from 1914 to 1919 caused an increased expenditure. It will be seen that, in 1919, it took \$1,954 to purchase the same amount of commodities as could be purchased in 1914 for \$1,000.

The decline in the general price level during 1920 and 1921 made possible the expression of a minimum standard of living in lower monetary costs than that for 1919, although still higher than that for 1914. In 1922, for illustration, Professor Ogburn estimated that \$1,300 would afford a minimum standard of living for a family of five in New York or Chicago.<sup>2</sup>

One of the best studies of minimum costs of living for the period of relative stability and prosperity between the minor depression of 1921 and

<sup>1</sup> U. S. Bureau of Labor Statistics, "Tentative Quantity and Cost Budget," p. 6. See also *Monthly Labor Review*, pp. 1-18, June, 1920.

<sup>2</sup> OGBURN, W. F., "The Standard of Living and Wages," *American Economic Review*, vol. 13, Supplement, 1923.

the major depression of 1929 to 1933 is that of the National Industrial Conference Board, published in 1928.<sup>1</sup> Data were obtained by personal investigation in the four large cities of Boston, Cleveland, New York, and Philadelphia; in the four medium-sized cities of Dayton, Ohio, Reading, Pa., Springfield, Mass., and Syracuse, N. Y.; and in the four small cities of Butler, Pa., Leominster, Mass., Lockport, N. Y., and Marion, Ohio. It is apparent that this study was confined to three representative types of communities in each of four typical industrial states. Costs-of-living data were based on the local prices of essential commodities and services,

MINIMUM STANDARD OF LIVING<sup>1</sup>

December, 1914			Percentage increase in cost 1914 to 1919	December, 1919	
Item	Amount	Percentage		Amount	Percentage
Food.....	\$ 430	43.0	91	\$ 821	42.0
Clothing.....	130	13.0	198	387	19.8
Rent.....	180	18.0	25	225	11.5
Fuel and light.....	50	5.0	52	76	3.9
Furniture.....	50	5.0	175	138	7.1
Miscellaneous.....	160	16.0	92	307	15.7
Total.....	\$1,000	100	95	\$1,954	100

<sup>1</sup> *Monthly Labor Review*, p. 3, July, 1920.

i.e., food, housing, fuel, light, clothing, and sundries. The relative importance of these different items, as measured in percentages of total costs, differed slightly from community to community but, on the whole, resembled those given above by the U. S. Bureau of Labor Statistics. The final estimate was that just before the great depression and deflation period of 1929 to 1933 the average minimum cost of maintaining a "fair American standard of living" for the family of an industrial worker, including the worker himself, his wife, and two children (not three children as was the case in former studies), ranged from \$1,552 in Cleveland to \$1,628 in New York for the large cities; from \$1,504 in Dayton to \$1,618 in Reading for the medium-sized cities; and from \$1,442 in Marion to \$1,567 in Lockport for the small cities. Thus differences in costs of living among large, medium-sized, and small cities were not great. Greater differences in the costs of maintaining a minimum standard of living probably existed between the industrial areas of the North and South. In any event, the average minimum costs of living just before the recent

<sup>1</sup> "The Cost of Living in Twelve Industrial Cities," National Industrial Conference Board, 1928.

depression were roughly about \$1,500 in these industrial communities of the North in this period, according to this study of the National Industrial Conference Board.

**14. Costs of Living and the General Price Level.**—Changes in costs of living represent one phase of the "dance of the dollar," pictured graphically in Chart 21 in the last chapter. A cost of living index is a series of percentages, representing changes in the prices of essential commodities and services. Commodities are generally limited to necessities and comforts and weighted in favor of the former. Such an index naturally is computed from retail, rather than wholesale, prices. Moreover, costs of living include payments for certain essential services, such as rent and light. Medical and dental bills also should be provided for, although most workers in the lower income groups neglect matters of health, except in cases of great emergency or serious illness which require hospitalization in free or low-cost wards. Workers pay a considerable share of the public taxes, but, for the most part, they do so indirectly in their rent and retail prices, rather than directly in income or real estate taxes.

Certain "overhead costs of living," such as taxes, interest on borrowed money, insurance premiums, and utility rates, vary less than commodity prices. Hence an index of costs of living may not go up so fast or so far during a period of inflation as one of the general price level. Similarly, during a period of deflation, costs of living rarely come down so far or so fast as the general price level.

**15. Fluctuations in Costs of Living.**—A survey of changes in costs of living during the past generation shows movements similar to those of the general price level, discussed in previous chapters. Even before the World War, costs of living were slowly rising and during the war and post-war years of inflation they rose even more rapidly.

The peak was reached in the spring of 1920, when costs of living were over twice as great as before the outbreak of European hostilities and almost three times as great as in the early years of the present century. It was followed by a decline from an index of 209 in 1920 to one of 167 in 1922 (1913 = 100 per cent).

From 1929 to 1933, another serious and protracted decline in the general price level brought costs of living down still more, *i.e.*, from an index of 171 in 1929 to one of 132 in 1933 (1913 = 100 per cent). However, costs of living in 1933 were still almost one-third above their pre-war level.

The U. S. Bureau of Labor Statistics has kept a carefully computed index of costs of living for the past generation. It will be found in the table on the opposite page, illustrated by Chart 31 just below it.

The postwar period can be divided into the following five divisions: (1) continued inflation from 1918 to 1920, (2) deflation from 1920 to 1922, (3) a period of relative stability and prosperity from 1922 to 1929, (4)

deflation from 1929 to 1932, and (5) a period of recovery and reconstruction, which may date from Roosevelt's attempt to "reflate" prices in 1933.

INDEX OF COSTS OF LIVING  
(Base 100 per cent—1913 level)

Year	Index	Year	Index	Year	Index
1907	82.0	1916	118.3	1925	175.7
1908	84.3	1917	142.4	1926	175.2
1909	88.7	1918	174.4	1927	172.7
1910	93.0	1919	188.3	1928	170.7
1911	92.0	1920	208.5	1929	170.8
1912	97.6	1921	177.3	1930	163.7
1913	100.0	1922	167.3	1931	148.1
1914	103.0	1923	171.0	1932	133.9
1915	105.1	1924	170.7	1933	131.7
				1934 (June)	136.4

United States Bureau of Labor Statistics, *Monthly Labor Review*.

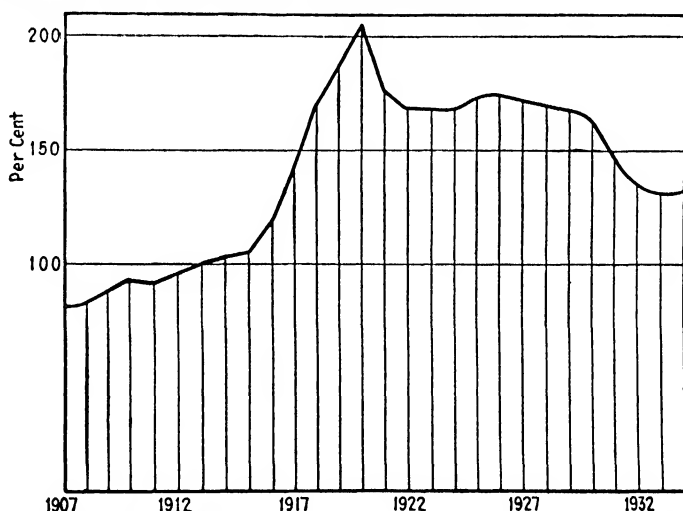


CHART 31.—Changes in costs of living (1907 to 1934) (base—level of 1913 = 100 per cent).  
(Prepared from indices of United States Bureau of Labor Statistics.)

See table above.

**16. Relative Changes in Costs of Individual Items.**—The rapidity and extent of changes in the prices of important individual items in costs of living, such as food, clothing, and housing, are as interesting as movements of the composite whole. Chart 32 pictures relative changes in the costs of these three individual items in relation to each other and to costs of living as a whole for the two decades from 1913 to 1933.

It will be seen that the costs of clothing rose higher and faster than those of any other important item in costs of living, during the infla-

tionary period from 1914 to 1920. Food prices rose about as rapidly as the general cost of living. Perhaps this is natural in view of the fact that food constitutes such an important item in the family budgets of those in modest circumstances. Hence a refinement of money wages into real wages by means of a retail food-price index, rather than a general cost of living index, is not so crude as might be supposed. Costs of housing did not begin to rise appreciably until two years after the rise in the costs of

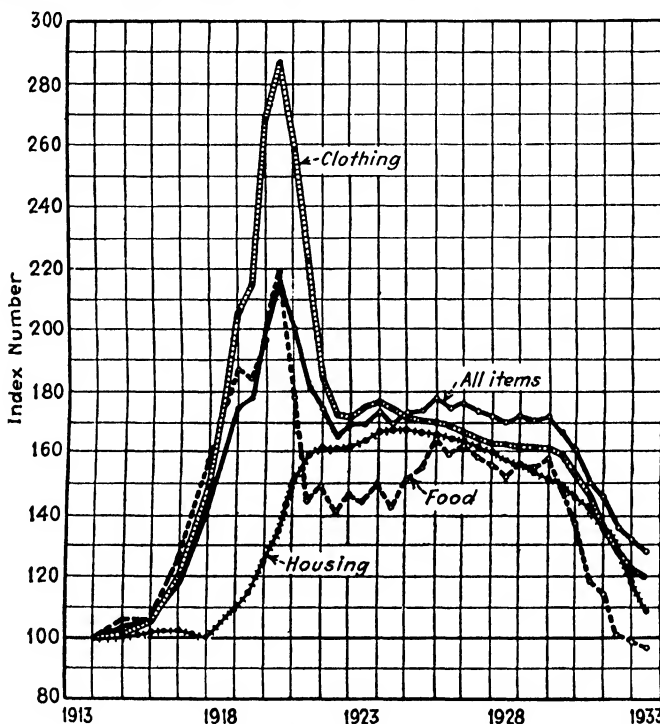


CHART 32.—Relative changes in costs of constituent items in standards of living. (Prepared from indices of United States Bureau of Labor Statistics. Reproduced from *New York Times*, Sunday, July 30, 1933.)

clothing and food; and then it rose only half as much as the latter and a third as much as the former.

In the price decline from 1920 to 1921, costs of food and clothing fell precipitously. However, costs of housing continued to rise, but at a slower rate of increase.

In the more recent period of falling prices from 1929 to 1933, the costs of food and clothing again fell precipitously. But costs of housing declined more slowly. However, this gradual decline had begun several years before 1929. During this depression, food was the only item in costs of living that declined to its prewar level of 1913, even falling slightly below it in 1932 and 1933. But at that same time housing costs were

still about 10 per cent, and clothing costs about 20 per cent, above their respective prewar levels of 1913.

Changes in family budgets must be refined in terms of changes in the costs of individual items. It will be remembered from a previous section in this chapter that families in poor or modest circumstances appeared to be spending relatively more for clothing and relatively less for food than before. In view of this analysis of changes in the costs of individual items, it is apparent that the chief reason for this modification in family budgets, at least for the period between 1914 and 1920, was not so much an increased desire for more and better clothing as the increased cost of the same quantity and quality of clothing. Similarly, the relative decrease in expenditure for housing does not reflect so much a decline in customary housing habits and accommodations as the failure of rents to rise as rapidly as other elements in costs of living, at least for the period from 1914 to 1920.

**17. Early Studies of the Inadequacy of Wages.**—Numerous attempts have been made to estimate the sum necessary to maintain at a given time a decent standard of living for an American family. These estimates have been paralleled by surveys of the wages received by various groups of workers. Although these findings differ from time to time, from locality to locality, from industry to industry, and from investigator to investigator, there is one common revelation, *viz.*, the persistent inadequacy of the wages of a large portion of our laboring population to maintain decent standards of living for a family. Considerable poverty has existed in prosperous America.

It is only by tracing this problem over a number of years, of rising prices and falling prices, and during periods of prosperity and periods of depression, that the inadequacy of many family wages can be seen. Let us briefly review this situation.<sup>1</sup>

The Reverend John A. Ryan<sup>2</sup> studied costs of living at the opening of the present century and in 1903 estimated that the sum of \$600 was the minimum on which a decent standard of living might be maintained by a family. His study of the wages of approximately four million adult male workers in manufacturing and transportation convinced him that over half of them (from 51 to 85 per cent) were receiving inadequate wages to support a family according to his minimum standard at that time.

In 1907, Mr. Chapin reported that \$825 was necessary to support an average family of father, mother, and three children under fourteen years of age in New York. In 1909, however, he declared \$900 or more

<sup>1</sup> An interesting general survey of previous studies of wages and costs of living may be found in the article by A. Epstein entitled "Have American Wages Permitted an American Standard of Living?" in the *Annals of the American Academy of Political and Social Science*, September, 1921.

<sup>2</sup> RYAN, J. A., "A Living Wage."

was essential to maintain "a normal standard, at least as far as the physical man is concerned." But of the 400 New York families studied by him, 45 per cent received less than \$800 and 63.7 per cent received less than \$900.<sup>1</sup>

At about the same time (1908), Scott Nearing estimated that one-third of the male factory employees in Massachusetts earned less than \$500, over one-half earned less than \$600, and nearly three-fourths earned less than \$700. His study of five leading industries of New Jersey, as well as of the slaughter houses of Kansas City, indicated similar results and confirmed his belief that the problem of low wages was a national and not a local problem. According to Nearing, five million industrial workers in the United States were earning annually only \$600 or less. Although the ranks of unskilled labor included a large number of unmarried men, for a disproportionately large share of foreign immigrants were unmarried, a considerable portion of these low-waged men were trying to support families. Dr. Nearing further contended that 65 per cent of the workers in the steel industry of Pittsburgh, "the city of a thousand millionaires," were unskilled laborers with wages at that time ranging from a little over \$400 to a little over \$500 a year.<sup>2</sup>

A congressional investigation two years later of the steel industry indicated that Dr. Nearing had not greatly exaggerated the situation. It revealed that, in 1910, 8 per cent of the workers in the iron and steel industry were paid less than \$500 a year and 60 per cent less than \$750. A wage less than that necessary to maintain a minimum standard of living prevailed also among many clothing workers of New York tenements, among the stockyard laborers of Chicago, and in the industrial towns of Pennsylvania.

In 1913, Dr. Nearing<sup>3</sup> concluded that a man, wife, and three children seeking to maintain a decent standard of living required \$700 a year in Southern states and \$750 in Northern states. In larger cities where rents were higher \$100 a year more were required. His estimate of 1913 is typical of others of the same year. Nearing's study of the wages received by many workers at that time showed their inadequacy. This belief was confirmed by other later independent studies. Thus the Pennsylvania Department of Labor and Industry estimated that the average male wage in 1914 was \$14.40 a week or \$720 a year. The New York Industrial Commission gave the average wage in that state in 1915 as \$12.85 a week or \$668 a year.

The U. S. Commission on Industrial Relations, Report of 1916, estimated that from one-third to one-fourth of the male industrial workers over eighteen years of age were receiving less than \$15 a week;

<sup>1</sup> CHAPIN, R. C., "The Standard of Living in New York City," pp. 236 and 246.

<sup>2</sup> NEARING, S., "Social Adjustment," chap. 4.

<sup>3</sup> NEARING, S., "Financing the Wage Earner's Family."



two-thirds to three-fourths less than \$15 a week; and only one-tenth of them were receiving over \$20 a week. During the same year the investigations of Carlton Parker led him to declare that half of the wage earners' families in the United States had an income below the requirements of subsistence.

The student is advised not to memorize these ephemeral estimates of standards of living, or the details of the various wage studies which accompanied them. Some of the most typical have been quoted from the vast number of such studies which have been made by private and governmental agencies. There is overwhelming testimony to the fact that the wages of a considerable portion of our gainfully employed population have been inadequate to maintain decent standards of living for a family. Hence poverty was rampant, and women and children were drawn into industry to supplement the inadequate wages of husbands and fathers.

**18. Inadequacy of Wages during the Period of War-time Inflation.**—Costs of living which had been slowly rising in the opening years of the twentieth century rose still more rapidly after the outbreak of the World War in 1914. With the entrance of America into the war in 1917, prices in this country jumped enormously. Estimates of minimum standards of living became obsolete within a few months.

Professor Ogburn<sup>1</sup> made an analysis of the standard of living of governmental employees in the District of Columbia in 1916. He concluded that an average family of man, wife, and three children was in debt if their annual income was less than \$1,155. But prices continued to rise and in 1918 he estimated for the National War Labor Board that \$1,386 was essential for a minimum subsistence level and \$1,760 for a minimum comfort standard of living.

In 1919, the National Industrial Conference Board, an organization of employers, reached the conclusion that in Massachusetts about \$1,386 was necessary for the support of a family of five. A more liberal budget, which included some provisions for insurance, was fixed at about \$1,658. On the other hand, a declaration of the Amalgamated Clothing Workers at that time insisted that \$2,500 was essential for a family income.

During the peak of high prices in May, 1920, W. J. Lauck, as an economist before the U. S. Railway Labor Board, declared that "not one penny less than \$2,500 a year was the minimum necessary for a family of five to maintain itself upon, even in decent poverty."

A survey of the increases in money wages during this period of rapidly rising prices is even more bewildering than one of prices and minimum estimates of standards of living. It was demonstrated in the last chapter that there is considerable difference of opinion as to the course of real

<sup>1</sup> OGBURN, W. F., "Movement of the Cost of Living and Wages," *Annals of the American Academy of Political and Social Sciences*, vol. 81, 1919.

wages during the war. The money wages of different economic groups increased at such varying rates and in such different amounts that any sweeping generalization is misleading, if not inaccurate. However, it would seem that, in spite of our seeming war-time prosperity, a number of individuals received insufficient income to maintain former standards of living, and some families suffered actual poverty. Perhaps the strain was greatest on the salaried groups, whose incomes increased but slightly and whose real wages therefore declined. Considerable retrenchment was necessary in customary standards of living. Again, certain groups of unorganized manual laborers received insufficient real income to maintain minimum standards of living.

The idea that all workers received fabulous wages during the war is as incorrect as it is common. This economic legend can be traced to the great rise in prices which required unprecedented monetary expressions for the wages of common labor. Perhaps it is due also to the extravagant consumption of certain groups of workers who did enjoy temporary prosperity at a time when other groups were suffering relative hardships. In the last chapter it was shown that great discrepancies appeared in the course of real wages during the period of inflation in the case of wage earners and the salaried groups, and in the case of the organized and the unorganized workers. There were also important differences in wages in "essential" and "non-essential" industries.

Professor Fitch<sup>1</sup> selected a group of industries in which over 90 per cent of the workers were males over sixteen years of age. He then computed an average wage in each industry for the year 1918 based on the average weekly wages, as presented by the *Industrial Bulletin* of the New York Department of Labor for each month of that year. The result showed yearly wages for 1918 ranging from slightly less than \$954 to over \$1,660. The average and median wages were about \$1,200. In only three of the sixteen industries studied, *viz.*, the iron and steel industry (the former low wages of which have been noted), railway shops, and shipbuilding, did the annual wages of adult male workers equal or surpass Professor Ogburn's estimate of \$1,386 as the cost of a bare subsistence in 1918. None of them reached his comfort level of \$1,760 for that year.

The investigation by the National Bureau of Economic Research<sup>2</sup> of our national income, referred to in the three previous chapters, revealed the fact that average incomes in mining and transportation, occupations which are predominantly those of adult males, were \$1,283 and \$1,286, respectively, in 1918. Hence, they were lower than the minimum required for decency and far below the comfort level. The general findings of the National Bureau of Economic Research as to incomes

<sup>1</sup> FITCH, J. A., "The Causes of Industrial Unrest," pp. 46 and 47.

<sup>2</sup> National Bureau of Economic Research, "Income in the United States," p. 102.

received in 1918 indicated that the prewar problem of inadequate wages had not been eliminated, no matter what the trend of real wages had been. Thus there were about 14,000,000 individuals receiving incomes of \$1,000 a year or less, about 12,000,000 more receiving incomes between \$1,000 and \$1,500, and only 5,000,000 individuals receiving incomes between \$1,500 and \$2,000. It is safe to assume that most of these small incomes represented wages. On the other hand, a large number of these receivers of small incomes were women and single men rather than married men. Nevertheless, out of 32,000,000 individuals whose incomes in 1918 were \$2,000 or less, a considerable portion were married men with dependent families.

Early in 1919, the U. S. Bureau of Labor Statistics<sup>1</sup> made an extensive study of wages in twenty-two fairly typical manufacturing industries throughout the country. The average weekly earnings of these male employees were found to vary from slightly under \$20 to slightly over \$30 a week. It is interesting to note that the highest paid group now consisted of the well-organized clothing workers who had formerly been unorganized and underpaid. The average weekly earnings of the male employees in most of the industries studied in 1919 were somewhere in the twenties. The yearly average was about \$1,330.

A similar investigation of miners' wages at the same time by the same body showed interesting variations, but about the same general yearly average. Irregular employment and underemployment in the mines reduced high wage rates to rather meager earnings. Thus the problem of inadequate wages had not been eliminated in 1919 in industry or mining. The incomes of many heads of families were still insufficient of themselves to maintain a subsistence standard of living and generally far from sufficient to maintain a comfort standard of living for a family of five, according to the estimates of Professor Ogburn for the preceding year, in which the general price level was even lower than that of 1919.

**19. Inadequacy of Wages during Postwar Prosperity.**—The period between the minor depression of 1921 and the major depression of 1929 to 1933 was one of relative prosperity, as well as one of relative stability in commodity prices. However, the new industrial revolution was characterized by a rising tide of technological unemployment, even before the deluge of cyclical unemployment during the recent great depression. Although the real wages of employed industrial workers rose between 1922 and 1929, this period was not one of prosperity for agriculture, as shown in the previous chapter.

Even in industry itself, numerous bad spots remained in some basic occupations. Labor in the steel industry was never well organized, and the postwar strike for improved conditions was a failure. The bituminous

<sup>1</sup> "Industrial Survey in Selected Industries in the United States in 1919," *Bulletin* 265, pp. 37-38, May, 1920.

coal fields of West Virginia were unorganized and the organized areas in Pennsylvania lost heavily during several unsuccessful strikes. In numerous manufacturing industries the open shop made considerable progress at the expense of the closed shop. During this same period, company unionism grew rapidly in membership, while trade unionism enjoyed only a modest increase in membership.

The new industrial revolution was accompanied by a relocation of industry, as illustrated by the movement of the cotton-textile manufactures from New England to the Piedmont section of the South, where the wages paid were below the general standard of the industry. The figures of the Census of Manufactures for 1923 showed a yearly average of \$641.97, or a weekly average of \$12.35, for the cotton-mill workers of the leading industrial states of the South. The figures of the Bureau of Labor Statistics for 1926 have been paraphrased as follows:

John South Carolina gets \$10.35 a week, while William North Carolina, who represents the best paid of the southern groups, receives \$13.66. If we ask how the Carolinas succeed in making both ends meet, we find that they count upon three pay envelopes instead of one. Without the pay envelopes of the older children they could not live.<sup>1</sup>

Even in the North there was considerable movement of the lighter industries from the larger cities into the smaller towns. Very often it was a movement from organized and higher wage communities to unorganized and lower wage areas, as well as from states with advanced labor legislation to those with lower standards of economic well-being for their workers. The result was considerable distress and poverty in both old and new industrial areas.

**20. Collapse of Wages and Standards during Great Depression.**—During the depression years from 1929 to 1933, labor lost whatever gains it had made in the period of the World War and the new industrial revolution. Not only did unemployment increase by millions, but also wage rates were slashed again and again by sweat shops, and even by reputable enterprises in the later years of the depression in a desperate effort to cut costs down to a level which would permit them to stay in business. Chart 26 in the previous chapter showed how employment fell to slightly above, and payrolls to slightly below, half their 1929 levels. Chart 27 showed the precipitous decline in per capita wages.

Social standards of economic well-being, built up slowly in previous decades, suddenly gave way or slowly crumbled. Many families were forced to reduce their standards of living from a luxury to a comfort level, and others from a comfort level to one of bare necessities. Still other families, many of which had been living previously at a minimum

<sup>1</sup> BLANSARD, P., "Labor in Southern Cotton Mills," quoted in *American Labor Legislation Review*, p. 48, March, 1928.

standard, fell into poverty, or even into pauperism. Billions of dollars were expended for public relief, and millions of individuals ceased to be self-supporting.

**21. Wages and Standards in the Reconstruction Period.**—The chief purpose of the National Industrial Recovery Act was to provide work for the millions of unemployed and to restore purchasing power to the great masses of our population, in order that the following twin objectives might be achieved: the creation of an effective demand, rather than an impotent desire, for the products of our farms and factories, and the restoration of decent standards of living to many families by giving them work instead of public aid.

In order to remedy the former abuses of sweating and starvation wages, the new industrial codes attempted to specify minimum wages for a given group of workers in a given industry in a particular geographical area. The ideal was that of voluntary agreement in the payment of a living wage and the elimination of establishments which could not, or would not, pay at least a minimum wage. During the summer months of 1933, great industries like steel and cotton textiles, chronic offenders in the matter of hours and wages, worked out their "voluntary" codes under steady pressure from the Federal government.

President Roosevelt's blanket code, for use by industries until or unless they formulated satisfactory ones for themselves, contained the following provisions concerning wages. It was forbidden to pay any employee covered by the act less than \$15 a week in cities of more than 500,000 and in the trade areas about them, or less than \$14.50 in cities between 250,000 and 500,000 population, or less than \$14 in cities between 2,500 and 250,000 population, or to increase wages by less than 20 per cent of those receiving less than \$12 a week or by less than the amount necessary to bring wages up to \$12 in towns of less than 2,500 population.

For those employees working on an hourly, rather than a weekly, basis, the blanket code of 1933 prohibited the payment of less than 40 cents an hour, unless the hourly rate on July 15, 1929, was less than 40 cents an hour, in which case this former rate was to be restored, provided that it was not less than 30 cents an hour, below which rate it was forbidden to go. Employees paid by piece work, rather than by time, could be paid more, but not less, than these minimum-wage rates.

The blanket code of 1933 further provided that compensation for employment now in excess of the minimum wages hereby agreed to should not be reduced, even if hours were reduced by the share-the-work movement reducing the length of the working day or week. In other words, the same earnings were to be maintained for shorter hours by a proportionate increase in wage rates.

**22. Review of Average Wages in Generation before the Great Economic Depression.**—Before concluding this analysis of the persistent

inadequacy of wages, the student is asked to refer back to Professor Douglas's estimates<sup>1</sup> of average wages before the recent depression. A comparison of them with costs of living for the corresponding years will show that they were generally below the costs of maintaining a family in health and decency. If average earnings after allowance for unemployment are compared, their inadequacy becomes even more apparent.

A review of average earnings of employed workers in specified industries and occupations will show which have been the worst offenders in the matter of inadequate wages. Although farm labor seems to have been the most poorly paid, the average wage of employed workers in manufacturing also was inadequate to support a family properly. However, this average was lowered by the inclusion of the wages of women and children. When allowances are made for unemployment and irregular employment, coal mining, which is primarily an occupation of adult males, makes an especially poor showing.

When it is recalled that thousands of workers in each group received actual earnings below these theoretical averages, the picture becomes appalling. The only conclusion which can be drawn is that the wages of many workers over this long period of time were insufficient to maintain a minimum standard of living for a family of five or even four members. The result has been either poverty or the entrance of women and children into industry in order to increase the total family income to an amount sufficient to provide a minimum standard of health and decency.

**23. Problems Involved in Raising Wages and Standards.**—A review of these estimates of average wages paid during the past generation in terms of the wage provisions of the new industrial codes is interesting. It will give some idea of the gigantic proportions of the attempt of the National Industrial Recovery Act to restore purchasing power and standards of living after the ravages of the great economic depression of 1929 to 1933. The wide gap between what has been paid out in the national wage bills of past years and what must be paid out in future wages under the new industrial codes is apparent.

The economist contends that increased wages create increased purchasing power and increased demand for the products of industry, which, in turn, provides funds to pay the increased wages, but it is difficult to pay increased wages out of decreased production and in the face of a decline in the general price level. The extensive public-works project, provided for in the National Recovery Act, was regarded as a means of cutting through this vicious circle by priming the stalled motor of industry until the good cycle just described should replace the bad one and should display the ability to run from its own momentum. Meanwhile, the employer was puzzled as to how he could absorb or pass on the higher costs of his increased payroll. Demands for some commodities and

<sup>1</sup> See p. 169.

services are so elastic that a slight increase in price results in a great decrease in quantity sold.

**24. Concept of a Family Wage.**—The presence of several million women and children in industry, as well as the large number of single men employed, raises the question as to what extent, if at all, the assumption of a family of five, dependent on one wage earner, is correct for the measurement of the adequacy of wages. This may be a splendid social ideal, but it is at variance with the facts.

In 1920, there were about 24 million families and 42 million gainfully employed individuals in the United States, and in 1930 there were about 30 million families and about 49 million gainfully employed individuals. Hence the number of wage earners has been, and still is, almost twice the number of families. An assumption of two wage earners per family instead of one would be more closely in line with the actual facts.

Moreover, the average size of the American family is not five, but about four (4.4 in 1920 and 4.1 in 1930). The former assumption of three children per family is not borne out by statistics. The 1930 census showed about 36 million children under fifteen years of age or an average of only slightly above one dependent child per family or only half our former assumption. Hence it is apparent that two dependent children per family, rather than three, is still an overestimate.

In spite of these statistical refinements, however, the fact remains that there are a number of individuals who are solely dependent on their own earnings for the support of their families. Moreover, the size of the family is generally greatest in those economic groups which suffer most from low wages. The result is poverty and/or the entrance of women and children into industry.

**25. Effects of Inadequate Wages.**—The social effects of low wages are poverty and subnormal standards of living. These in turn create other problems, such as those of women and children in industry. Unsanitary housing, insufficient food, clothing, and medical attention are concomitants of low wages which result in an increased death rate.

The infant-mortality rate is a fairly good barometer of standards of living. In certain American cities it was found to vary inversely within certain limits with the size of the family income. It was found to be twice as great in the lowest income group as in the income group whose earnings were considerably higher. Hence it has been suggested that the low wages of the heads of many families be termed a dying wage rather than a living wage. Chart 33 on the next page tells the story.

In 1917 and 1918, an investigation was made of the budgets of over 2,000 families which were under observation by the Bureau of Preventable Diseases of the Department of Health of New York City. Over 10,000 persons were represented, of whom over 3,000 were wage earners; in other words, families which averaged five in number with an average

of one and one-half wage earners per family. Twenty-one per cent of these families had a total annual income of \$600 or less, 30 per cent of the families had a total annual income of from \$600 to \$900, and about 21 per cent of the families had a total annual income of from \$900 to \$1,200. Half the families had a total annual income of less than \$900. These families with subnormally low incomes averaged one case of illness to a family, as a result of which 9 per cent of them applied for the first time for charitable relief. Other devices resorted to were the entrance of the housewives into industry, the borrowing of money wherever possible, and the taking in of lodgers or boarders. Most important of all effects of inadequate wages, however, was the reduction of the expenditures for food. This stinting of food militated against

INFANT DEATH RATE PER 1000		FATHERS EARNINGS
188		Under \$450
137		\$450 to \$549
118		\$550 to \$649
106		\$650 to \$849
84		\$850 to \$1049
64		\$1050 to \$1349
61		\$1250 and over

CHART 33.—Infant mortality according to fathers' earnings. Eight American cities. (Chart drawn from data compiled from *Chief of the Children's Bureau, Sixth Annual Report*, p. 11, 1918.)

the recovery of health in the case of the sick and caused a liability to illness in the case of those who were not sick. The use of meat, eggs, and butter was eliminated in many cases. In spite of the needs of babies and young children, the consumption of milk was greatly reduced and in some cases eliminated altogether.<sup>1</sup>

The inadequate wages of the heads of families cast their shadow over the lives of the children. Thus a large portion of the children of pre-school age and of school age have been found to be undernourished. Many suffer from serious but remedial physical defects. The money which is spent for food and medical care often is woefully inadequate. Hence certain cities have maintained the free distribution of milk, soup, or other foods to undernourished school children. Again, the physical examination of school children has been supplemented by free medical and dental services in the case of those unable to pay. Although ignorance and indifference play an important part in ill health, the significance of poverty and inadequate wages cannot be escaped.

<sup>1</sup> HARRIS, DR. LOUIS I., Bureau of Preventable Diseases, Department of Public Health, New York City, December, 1917, January and February, 1918.



The economic effects of low wages are as important as their social effects. Low wages are not synonymous with low labor costs. Labor costs represent wages in proportion to productivity. Hence higher paid but more efficient workers may reduce, rather than increase, labor costs to management. Wages are higher in America than in Europe, but labor costs are not correspondingly higher. What the employer desires is not low wages, but low labor costs. Industrial inefficiency is a cause of low wages, but it is also an effect of low wages with correspondingly low standards of living.

Low wages cause discontent, as well as reduced efficiency. Social unrest finds a fertile soil in the ranks of poorly paid and irregularly employed workers. If the present economic order offers them no guarantee of a decent standard of living in return for faithful and honest effort, no harm can come to them by revolutionary changes. They become ready listeners to the glowing promises of leaders of radical thought. On the other hand, steadily employed and adequately paid workers, who are able to own their small homes and to keep the wolf from the door, form a conservative element within the community.

**26. Social Attitudes toward Poverty.**—Almsgiving has long been regarded as a religious duty and the profession of begging is of ancient origin. The old attitude toward poverty was similar to that toward war, *viz.*, that it would always exist because it always had existed. A similar fatalistic attitude toward disease long prevented progress in the healing arts and medical sciences.

The attitude of modern social science is that philanthropy is necessary for the alleviation of temporary distress, but the elimination of poverty is the ultimate ideal. The same scientific spirit which has reduced the ravages of smallpox, yellow fever, and other physical diseases is now attacking the social disease of poverty. It seeks the reduction, if not the elimination, of poverty through an intelligent and concentrated attack on its causes, rather than through the promotion of indiscriminate almsgiving. Finally, social service, like health service, aims not merely at giving relief to all sufferers, but also at promoting decent or normal standards of living through the restoration of economic independence.

**27. Causes of Poverty.**—A number of social reformers made the error of assuming that poverty had but one cause. Thus Malthus believed that poverty was due to the pressure of population on the food supply. On the other hand, Karl Marx found its explanation in the ownership of the instruments of production by a capitalistic class and the resulting dependence of the proletariat on the bourgeoisie. Socialism therefore was his remedy. To Henry George, however, poverty was a result of the individual, rather than the social, absorption of economic rent and the unearned increment from land. In "Progress and Poverty"

he points to single tax and the elimination of the landlord as his answer to the problem of poverty.

There is no single cause of poverty, for this social disease has a combination of causes. Moreover, many causes of poverty are also results of poverty. Although unemployment and low wages are important causes of poverty, numerous other causes exist. Finally, such answers are inadequate, for the student is forced to seek further in attempts to find causes of unemployment and low wages. Our present purpose is not to give the cause of poverty, or even a number of causes, but merely to show the complexity of this problem and to indicate a possible approach to various groups of contributory causes.

The familiar division into personal and environmental causes is helpful, but it represents merely different ways of classifying the same causal factors and different attitudes of approach toward the same problem. Sickness, for illustration, is both an individual and an environmental factor. Human sympathy engenders a personal consideration for sick individuals, but scientific interest expresses itself in a study of the nature, causes, and significance of the disease itself. Again, individual causes of poverty indicate the incidence of poverty, rather than its causes, *i.e.*, what individuals constitute that group, if a given amount of poverty is assumed. For an explanation of its existence, one must turn from the question why some particular persons or families are poor, to a broader analysis of impersonal factors and objective causes of poverty in the environment.

Environmental causes may be divided roughly into those resident in the physical environment and those resident in the social environment. Obviously, the physiography and natural resources of a country condition its economic prosperity. Certain countries, such as Scotland, Armenia, and Arabia, are poor by nature. Other countries are poor because of inadequate social adjustment and their failure to use adequately or properly what natural resources or advantages they do possess.

Just as the economist relinquishes individual case studies of poor people and problems of family rehabilitation to the sociologist, just so he leaves a detailed consideration of the physical environment to the geographer. He is busy enough with his own immediate task of analyzing those causes of poverty resident in our economic and social organization. Economic problems of poverty cluster about production and distribution. Sociological problems of poverty center about social institutions and organization, rather than about technological efficiency. Of course, all causes of poverty are interrelated, and separate treatment is a matter of convenience, rather than of logic.

**28. Objective Causes of Poverty in Our Economic Environment.**—By the use of improved methods of production and better economic organization, Western nations have made a better adjustment to their environ-

ment than in the Orient where dire poverty exists. Active adaptation and technological progress enable a dynamic society to keep ahead of the Malthusian specter of starvation. Thus national prosperity is an underlying condition for the amelioration of poverty. It is determined by both our natural resources and our degree of conscious adjustment. In both respects the United States has been fortunate. In Chap. IV it was demonstrated that America may justly be called a "prosperous" nation. However, distribution as well as production is a vital issue in a causal analysis of poverty, which exists in spite of so-called "national prosperity." In the last few chapters, it was demonstrated that, despite our tremendously increased productivity before 1929, serious economic inequalities have persisted. They have prevented an even, not necessarily equitable, diffusion of our large and adequate national income throughout all economic groups.

Low wages are a very important cause of poverty. The combined wages of all workers in some families are hardly sufficient to maintain decent standards of living. Earlier sections of this chapter were devoted to an analysis of the wages of large groups of adult male workers in relation to the minimum costs of living for a family. It was demonstrated in some detail that the wages of many heads of families have been insufficient of themselves to support in comfort, or even in decency, a wife and several children.

Unemployment is another economic maladjustment which reduces still further the meager earnings of many workers and brings a number of them within the poverty and pauper groups. The business cycle is accompanied by periods of economic depression with reduced opportunities for employment. Seasonal unemployment also is productive of poverty and increased appeals to relief organizations. Strikes and other industrial disturbances have similar effects.

Changes in industry, such as the introduction of machinery, often work considerable hardship on certain groups of workers, even though their general and long-run effects may be beneficial. This economic adjustment may be illustrated by the industrial revolution in England and the present mechanization of industry in the United States. Economic progress is frequently accompanied by such human costs as unemployment and poverty.

A bad system of land tenure, such as that in England during the inclosure movement, in Ireland in the days of the "rack rent," or in Mexico in the era of peonage, also is productive of poverty. The United States was fortunate in its former abundance of free land. Indeed, the problem of poverty in this country can be said to date from the elimination of the frontier and the exhaustion of free land in the West. The rapid industrialization of the United States in the period following the Civil War was mitigated by the possibility of the displaced workers

taking possession of a homestead and engaging in farming. Such an opportunity, however, is no longer open to the displaced workers of the new industrial revolution.

The rapid growth of our population must be accompanied by a similarly rapid increase of industrial efficiency, if our national prosperity is to be maintained. In the long run, our chief weapon against poverty is the increased productivity of industry. Standards of living are merely measures of prosperity, whether of nations or of families. Both are relative terms and afford the possibility of limitless increase. It must be remembered, however, that increased industrial efficiency, like the mechanization of industry, creates a problem of adjustment. Although it may be temporary, it works considerable hardship on those individuals who are thrown out of employment.

**29. Economic Inefficiency and Waste.**—The inefficiency, as well as the improvidence, of labor is much discussed as a cause of poverty, which is, of course, the absence of, or the opposite condition from, prosperity. But the wastes of our present competitive system and the incompetence of management also are important. Thus the Federated American Engineering Societies placed the responsibility for more than half of the existing waste in industry at the door of management rather than of labor.<sup>1</sup> The consumer also is to blame. Arbitrary changes in fashion result in a great waste of material to the producer, and perhaps in unemployment to the worker.

The inefficiency of labor is due to individual incompetence, indifference, and shiftlessness, as well as to such group policies as the limitation of output. But the decline of craftsmanship and our present extreme specialization make it difficult for a worker to throw himself with enthusiasm into his job. Moreover, he has had many bitter illustrations of the fact that increased production on his part may be accompanied by a cut in the rate of wages rather than by an increase of wages.

The worker has the economic wastes and inefficiency of our productive organization continually thrust before him. Perishable commodities are permitted to spoil by some enterprisers, who prefer to waste these goods, rather than to suffer from the reduction of values which would result if a surplus of consumable goods were thrown on the market. The recent agricultural reconstruction program frankly rewarded restriction of production, and even destruction of product, rather than increased productivity. In view of such characteristics of our modern economic system, it may be well to be less severe in our criticism of uneconomic labor policies and practices, such as soldiering on the job in an attempt to make work and thus to avoid poverty through loss or reduction of income.

<sup>1</sup> Committee on the Elimination of Waste in Industry of the Federated American Engineering Societies, "Waste in Industry," p. 9, 1921.

In the last place, the pecuniary motive, rather than that of social welfare, has dominated our economic organization. The worker continually sees about him the acquisition of wealth without commensurate production, the existence of glaring economic inequalities, and the wasteful idleness of the leisure class.

Management has been more indifferent to human wastes than to economic wastes. Social insurance, for illustration, has made but little headway in the United States, in spite of the fact that it has been Europe's chief weapon in her war against poverty. It has just been demonstrated how the development of social insurance in England decreased the poverty rate in that country. Although most of our states now have workmen's compensation laws against industrial accidents, and many have recently provided old-age pensions, nevertheless sickness and unemployment insurance are almost unknown in this country as governmental functions. Hence dire poverty has persisted in spite of our great national prosperity.

**30. Objective Causes of Poverty in Our Social Environment.**—Large families and the inability to give their numerous children proper educational advantages perpetuate the problem of low wages in the lower income groups. Their birth rate is generally higher than in those economic groups which can better afford large families. The tendency of population to grow from the bottom more rapidly than from the top is the chief explanation of the social pyramid of non-competing economic groups. Birth control and the restriction of immigration are powerful weapons against poverty and inadequate wages.

Unhealthy living conditions, as well as unsanitary and dangerous working conditions, are productive of sickness and sometimes of the death of the principal breadwinner. Low standards of living are causes of poverty as well as results. The relationship is a functional one, which is so common in all social problems. Low standards of living, ill health, industrial inefficiency, and low wages represent a vicious circle. The public-health and safety movements are doing much toward the reduction of poverty by breaking through this vicious circle.

The social environment of city slums and congested industrial areas may be as dangerous to social ideals as to physical health. Saloons and vicious amusement places have often led to the dissipation of the workers' financial and moral reserves. The degeneracy of family life is apt to be accompanied by the absence of economic ideals of thrift and steady industry. Social workers have discovered that the restoration of a healthy family life is essential to the restoration of economic independence.

Unwise philanthropy, rather than the scientific relief measures of organized charity, is another cause of poverty. As long as indiscriminate

giving to professional mendicants flourishes, begging will be more profitable than working.

Educational progress is important in the modern war against poverty. Statistics show a high rate of illiteracy and general ignorance among the poor and the paupers. The education of the normal individual as well as the subnormal should include among other ideals that of economic independence. Lack of industrial training and vocational guidance in our schools has been a contributory cause of poverty and crime. Until comparatively recent times, it was difficult for a boy to receive training in a trade at public expense unless he had committed a crime and was sent to some reformatory.

Religious beliefs may exalt poverty as a holy estate and turn men's minds from the sordid business of making a living to less worldly occupations, and from scientific discoveries to spiritual introspection.

Defects in the political as well as in the economic and social environments produce poverty. Corrupt or inefficient government discourages industry and thrift on the part of its people. Again, vested interests may prevent the passage of desirable legislation or the adequate enforcement of existing laws. The ward boss, rather than organized charity, may give coal and wood to the voter who is out of work. However, the citizen whose vote is purchased so easily is sacrificing ultimate social welfare to his own immediate advantage.

Legislation is no panacea for all social ills; far more is necessary than wise laws and their proper enforcement. Nevertheless, they form an essential part of any scheme of social reform. The attitude toward government is changing, and its sphere of activity is widening. Increased industrialization and the growing interdependence of all members of society have made imperative labor legislation as well as laws for the protection of consumers and investors. The former attitude of *laissez-faire*, or rugged individualism, has been abandoned, and government is now actively interfering in working and living conditions. It has attempted to regulate such matters as hours and wages, and it has sought to prevent the exploitation of women and children. It has sought to eliminate causes of poverty and to raise subnormal standards of living by such drastic devices as minimum-wage laws.

**31. Subjective Causes of Poverty.**—There are individual as well as objective causes of poverty, and a proper analysis of this problem requires an examination of the factor of heredity as well as that of environment. It is obvious that poverty is an acquired status, and not hereditary. On the other hand, physical or mental degeneracy, to which poverty may be directly attributed, may be inherent in the germ cell and hence hereditary. This fact will help explain why pauperism may run in a given family from one generation to another. It is easy, however, to attribute causes of poverty to the physical heredity rather than to the social

heredity of an individual, and to personal rather than environmental causes.

Inherent degeneracy or feeble-mindedness may express itself in various ways in successive generations, such as in pauperism, crime, drunkenness, or in other forms of vice. Although none of these things is strictly hereditary, there is some inherent weakness which produces them. Certain stocks in our population are biologically inferior, and their representatives possess little physical stamina or mental strength. Other individuals in the social debtor classes may be regarded as inferior variations of apparently normal stock.

Dr. Goddard<sup>1</sup> has stressed the role of feeble-mindedness in the problem of poverty and all programs of social reform. He estimated that half the inmates of almshouses were feeble-minded. As feeble-mindedness, unlike insanity, is hereditary rather than acquired, the elimination of the feeble-minded is not so much a problem of education as of eugenics. The segregation of the feeble-minded and other individuals of degenerate stock into custodial institutions and the prevention of their legitimate or illegitimate children will greatly help to reduce the amount of pauperism and poverty.

Disease is another important cause of poverty. Dr. Devine<sup>2</sup> has gone so far as to state that 75 per cent of poverty may be attributed to disease, and not 25 per cent as is commonly supposed. It is certain, however, that from 25 to 40 per cent of all relief cases indicate sickness as the chief or an important contributory cause. Sidney and Beatrice Webb, writing of three or four million destitute persons in the United Kingdom, declared that "with regard to at least one-third of these—we might almost say one-half—the recruiting sergeant who brings them in is sickness, the sickness that so far as concerns three-fourths of the population, we have proven to be preventable."<sup>3</sup> It should be remembered, however, that sickness or physical disability is often merely the individual expression of such objective causes of poverty as unsanitary living conditions, improper housing, vicious working conditions, and dangerous trades.

Although the importance of intemperance as a cause of poverty has often been exaggerated, it cannot be ignored. Crime and the imprisonment of the breadwinner are other factors. Desertion by the head of the family also appears in many cases of dependency in our large cities. Death of the main support appears in many relief cases and indicates the desirability of widows' pensions. Old age is a still more frequent cause of pauperism, which affords a powerful argument for old-age pensions.

<sup>1</sup> GODDARD, H. H., "Feeble-mindedness."

<sup>2</sup> DEVINE, E. T., "Misery and Its Causes."

<sup>3</sup> WEBB, SIDNEY, and BEATRICE WEBB, "The Prevention of Destitution," p. 16.

Shiftlessness and laziness are individual characteristics which contribute to poverty and pauperism. However, a number of cases so classified formerly have proved under modern scientific examination to be due to an undervitalized physical condition and not to mere individual laziness. The alleged shiftlessness of a portion of our population was discovered to be due to the presence of hookworm in their local physical environment. Malaria may play the same role in a mosquito-infested section.

Prosperity is conditioned as much by a healthy and stimulating climate as by abundant natural resources. Likewise, poverty is caused as much by an unhealthy or enervating climate as by the niggardliness of nature. Neither prosperity nor poverty can be explained merely as the results of individual virtues or vices. Physical and social environments, as well as physical and social heredities, are too fundamental to be ignored—or even slighted.

**32. Summary.**—The term “poverty” may be used in a comparative sense to refer to those groups in society with the smallest income. It may be used also to refer to those whose incomes are too small to permit the maintenance of health and working efficiency. The paupers, as contrasted with the poor, are those individuals who are the recipients of charity, either in institutions or in their own homes.

The extent of poverty is difficult to determine, for there are no absolute standards by which deviations from a normal can be measured. The phrase “the submerged tenth” is often used to express the comparative nature of poverty, its chronic condition and its wide extent.

A standard of living may be defined as a measure of economic consumption, *i.e.*, as the amount of income which an individual or a family consumes. Economic goods may be classified into necessities, comforts, and luxuries. Standards of living, like poverty itself, are relative. They vary from age to age, from nation to nation, and from one social group to another. A standard of living is essentially those things to which we are accustomed.

Standards of living are conditioned by one's desires and by one's purchasing power. Family budgets represent an attempt to balance expenditures against income. The commonly accepted unit of measurement is a family of four or five. As we descend the economic scale from the higher income groups to the lower income groups, the amount spent on necessities decreases, but its relative share of the total expenditure increases. After food, clothing, and shelter have been budgeted for, little remains for incidentals.

Standards of living have been classified as the pauper-poverty standard, the minimum of subsistence level, the minimum of health and comfort standard, and the normal standard of health and decency. Various attempts have been made to draw up a minimum standard of



living, expressed in terms of certain quantities and qualities of various commodities and services. Minimum standards of living are generally expressed in terms of their monetary costs in a given place and at a given time. Changes in costs of living make necessary frequent changes in the monetary expression of a minimum standard of living.

Numerous studies of wages in relation to costs of living testify to the persistent inadequacy of the family wages of a large portion of our laboring population. The result is poverty or subnormal standards of living, as well as the entrance of women and children into industry. Although the general trend of real wages before 1929 was upward, the wages of many adult male workers were insufficient to maintain a family in comfort and even in decency. This conclusion is verified by numerous studies of wages and costs of living in different places, at different times, under rising prices and under falling prices, and in periods of business prosperity as well as in times of depression.

Inadequate wages have serious social and economic effects. The insufficiency of the wages of many married men makes it necessary that they be supplemented by the meager earnings of other members of their families, some of whom should be at home or in school, rather than in industry. Low wages mean low standards of living, and low standards of living are a menace to the health and comfort of the community, as well as to the poor families themselves. Poverty is accompanied by discomfort, sickness, and a high death rate. A definite inverse correlation has been established between infant mortality and the wages of fathers.

There are serious economic as well as social effects of low wages, for low wages mean small purchasing power and a relatively slight economic demand. Inadequate wages for many and large fortunes for a few result in the glaring economic contrast between dire poverty and conspicuous consumption. Although overproduction in a general unqualified sense is impossible, great economic inequality may result in underconsumption and overinvestment which may induce, accelerate, or accentuate the business cycle. Again, low standards of living are the cause as well as the result of industrial inefficiency. Finally, low wages are not synonymous with low labor costs.

In addition to low wages there are other causes of poverty which are resident in our economic organization. These may be illustrated by unemployment, industrial accidents, occupational diseases, superannuation, and other industrial maladjustments. The physical, as well as the social, environment may be conducive to conditions of poverty rather than to those of prosperity.

There are individual subjective causes of poverty, as well as objective environmental causes. Illustrations are individual shiftlessness, sickness, feeble-mindedness, or other causes. Some of these are localized

chiefly within the social debtor groups, but others are diffused throughout society. Many subjective causes of poverty are merely individual expressions of general objective causes. They determine the incidence of poverty and the composition of the poor group rather than the existence of poverty as a social fact.

The problems of pauperism and the relief of the poor belong to the domain of sociology, but the economist must consider those objective causes of poverty which are resident within the economic environment. Poverty is now regarded as a social disease and not as a moral virtue. The former attitude toward poverty was that of almsgiving, but the modern scientific aim is the elimination or the reduction of the chief causes of poverty.

#### Collateral Reading

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### Questions for Discussion

1. Distinguish between poverty and pauperism.
2. Indicate the extent of each. Why is its determination difficult?
3. What do you understand by a standard of living?
4. Why is this a relative concept?
5. Why is it a social, rather than an individual, concept?
6. What are the chief conditioning elements of a standard of living?
7. What do you understand by a family budget?
8. State Engel's law and show its significance.
9. Outline various types of standards of living.
10. What do you understand by the minimum-quantity standard of living?
11. What do you understand by a family wage? Is this a fair economic and social concept?
12. What evidence have you that the wages of a large portion of our adult male workers are insufficient to support a family?
13. Is the problem of inadequate wages one of production, one of distribution, or both? Justify your position.
14. Outline some economic effects of low wages.
15. Outline some social effects of inadequate wages.
16. Enumerate some of the economic causes of poverty in addition to that of inadequate wages.
17. What is the distinction between subjective and objective causes of poverty? Is it a valid one? Why or why not?
18. Enumerate some of the leading individual causes of poverty.
19. Contrast the old and the new attitude toward poverty.

### Topics for Investigation

1. Philanthropy and poverty.
2. Aims and accomplishments of charity organization societies.
3. The concept of a family wage of Professor P. H. Douglas.
4. Early studies of poverty by Booth, Rowntree, and Hunter.
5. Poverty and social insurance.
6. The method and conclusions of any one of the investigations of standards of living referred to in this chapter.
7. Prepare a budget of your own income and expenditure or that of your own family.
8. Collapse of standards of living during economic depression of 1929 to 1933.
9. Attempts to restore purchasing power and standards of living in the recovery program of 1933.



## PART THREE

### HUMAN CONSERVATION AND LABOR LEGISLATION

Chapter VIII. The Long Day and the Problem of Industrial Fatigue,  
*Increased Leisure and Improved Working Conditions.*

Chapter IX. Industrial Hazards and Social Insurance, *Human Safety  
and Financial Compensation.*

Chapter X. The Problem of Unemployment, *The Quest for Economic  
Security Continued.*

Chapter XI. Women and Children in Industry, *Problems of Exploitation.*



## CHAPTER VIII

### THE LONG DAY AND THE PROBLEM OF INDUSTRIAL FATIGUE

#### INCREASED LEISURE AND IMPROVED WORKING CONDITIONS

**1. Human Conservation and Industrial Efficiency.**—The increased productivity of industry and the growth of our national income before 1929 were indicated in Chap. IV. However, it was demonstrated in Chap. V that this national prosperity was honeycombed with economic inequality and undermined by industrial insecurity. The last chapter showed how poverty and inadequate wages have persisted in spite of the gains of the new industrial revolution.

Increased industrial efficiency and enlarged economic production have not been followed by commensurate gains in human conservation any more than by reduced economic inequality. In spite of the increased strain and hazards of modern industry, long hours of work, as well as inadequate wages, have persisted in the case of large groups of unskilled workers. Moreover, modern industrialism is characterized by new dangers and increased insecurity of numerous types, against which protective devices and social insurance have developed only slowly. Children have toiled in factories, while adults have walked the streets in search of employment. In the absence of an intelligent, conscious planning of industry, business depressions have run their course and preventable accidents and diseases have continued to take their heavy human toll. These are some illustrations of the sacrifice of producer to product, which constitutes a social challenge to the alleged efficiency of modern industry. These are some of the problems of human conservation to be discussed in this section of the text.

**2. Human Conservation Contrasted with Exploitation.**—Just as poverty is the opposite of prosperity, so exploitation is the antithesis of human conservation. 'Capitalism has been defined as a system of economic freedom, but freedom of contract gives no more protection against economic exploitation than against economic inequality and industrial insecurity. A slave civilization, resting on the foundations of economic exploitation, frankly sacrificed the welfare of the slave to that of his owner, who enjoyed a property right in that human form of capital. The alternate possibilities of increased longevity of slaves under humane and moderate productivity or their frequent replacement under harsh conditions of rapid productivity were chiefly pecuniary problems,

involving only a comparison of the costs of slaves with the prices of cotton or molasses.

'Modern civilization, however, professes to believe, not only that all men are free, but also that they are more valuable than coal or steel. It would admit the generalizations that contented mothers mean more to society than contented cows, that the annual baby crop deserves more care than the annual wheat crop, and that pure, healthy girls are more to be desired than cheap paper boxes or artificial flowers. But specific realities differ from sweeping platitudes, and the employer must find some profit in each worker or else he will not employ him.' He must be able to compete with other enterprisers or be forced to retire from business. In this ruthless price competition, producer is often sacrificed to product, even under the freedom of modern capitalism.

'The impersonality of industry today also is to blame. The modern employer, perhaps an officer in some great corporation, does not directly feed and care for his workers, as did the plantation owner his smaller number of slaves, many of whom he knew by sight. The absentee capitalism of today is analogous to the absentee landlordism of the past, except that modern workers are free to attempt the maintenance of themselves and their families on their own wages, many of which have been inadequate to provide even minimum standards of living. The unemployed, the sick, and the superannuated workers have rarely been regarded as the employer's personal or immediate responsibility. They have often been dropped suddenly from employment upon the scrap heap of industry or into the social debtor group, where they have languished until, or unless, provided for by relief agencies.'

'Increased industrial efficiency without greater human conservation is not only cruel and unsocial, but also illogical and antiquated. It is as primitive as the offerings of food placed at the graves of warriors slain in successful battles of conquest. Man was not made for industry, but industry for man. The lives of all workers should be enriched, rather than menaced, by technological progress in the arts of production. Although difficult of attainment, this ideal is possible as well as desirable. Unfortunately, however, the ideal of human conservation has often been overshadowed by that of economic production, and social welfare has often been sacrificed to private profits. Economic well-being has not caught up with technical progress, and economic practice has lagged behind social idealism.

**3. Chief Forms of Economic Exploitation.**—Inadequate wages and miserable working conditions and excessive hours of work have been three frequently combined forms of industrial exploitation, a triple threat against human conservation. The last chapter showed the inadequacy of the wages of a large portion of our adult male workers to maintain decent standards of living for their families. The present



chapter will continue the story presented therein by showing that conditions of work have often been most distressing, and hours of labor longest, among those economic groups which suffer most from low wages. This discussion, like that of the preceding chapter, will be pointed especially toward the case of adult male workers. Wages and working conditions of women and children will be treated in Chap. XI, devoted especially to these "wards of industry."

The problem of improved working conditions has both its qualitative and quantitative aspects. The following discussion will be directed first toward an analysis of working conditions and then toward a consideration of the length of the working day. It will attempt to show that better and safer working conditions, as well as shorter hours, are greatly to be desired in the interests of individual welfare, social progress, and industrial efficiency. Moreover, they are possible and economical.

**4. Power Machinery and the Working Day.**—The invention of power machinery has made possible not only an increase of economic commodities and services, but also a decrease in hours of labor. Modern technology offers not only the prospect of increased prosperity, but also the promise of increased leisure. Because of the gains of the industrial revolutions—new as well as old—more wealth than formerly can now be produced in less time.

Power machinery has changed the character of the working day, as well as reduced its length. The physical effort of many workers has been decreased by the process of mechanization, but their mental strain has been increased. The machine has brought new dangers and discomforts. Again, the factory system has been accompanied by irregularity of employment and increased dependence of the workers because of their loss of ownership of their instruments of production. Finally, minute division of labor, associated with the machine, makes for increased monotony and fatigue. This new strain of industry will be discussed in the present chapter. The greater hazards and the increased insecurity of modern industry will be treated in the two following chapters.

**5. New Strain in Industry.**—The long day in industry is very old, but the intensified strain and increased dangers of modern industry are relatively new. Present methods of production differ greatly from those before the introduction of the factory system. Automatic devices have lessened the demand for brute strength and even for painfully acquired craftsmanship. Instead of brawn and skill, required by the hand tool, power machinery demands alertness and dexterous rapidity. Craftsmanship favored the mature worker, but the machine calls for youth.

Speed, monotony, and other characteristics of modern methods of production contribute to the increased strain of modern industry. Again, power machinery and "improved" processes have increased the dangers,

as well as the discomforts, of modern industry. New methods of production are as hazardous as they are fatiguing and disagreeable.

The muscular exertion required of the worker today is probably less than ever before, because of the substitution of power machinery for human arms and legs. But the nervous strain of industry has been greatly increased. Some of the chief reasons for the fatiguing character of modern industry are its intense speed, its dull monotony, and its incessant noise. Constant attention, continuous alertness, and physiological adjustment to an automatic rhythm are as tiring as great muscular exertion. The frequent menace of physical danger and the constant compulsion of the machine or the foreman increase this nervous tension sometimes to the point of physical exhaustion.

The extensive use of power machinery has been accompanied by an intensive division of labor. This minute specialization of factory work often resolves itself into an endless repetition of the same act, as, for illustration, the operation of a punching machine or a drill press. A worker in an automobile factory, to give another illustration, may do nothing except the tightening of a particular nut on a certain bolt, as the automatic conveyor carries the parts of the automobile from one worker to another. One laborer in a packing house sticks pigs all day long, and another worker fastens labels on a seemingly infinite number of cans of lard which are automatically fed to him at a rapid and steady pace.

The adaptation of the human mind and body to the automatic rhythm of the machine involves a nervous and physical adjustment which is fatiguing even under the best of conditions. Although thinking is not required, the constant attention and alertness which are always necessary involve a heavy mental strain. This nervous strain and physical fatigue are intensified as the speed increases—often at a disproportionately rapid rate.

By the use of machinery it is possible to speed up the worker to his greatest possible exertion by forcing the human eyes and fingers to keep pace with those of electricity and steel. In some automobile factories, for illustration, automatic conveyors can be geared deliberately to that rate of speed which corresponds to that of the fastest laborers. Workers, new or old, who cannot maintain "the pace that kills" are forced to quit.

Even where machinery is not directly used, division of labor, piece work, and measurement of output accomplish the same effect of speeding up workers. The plan followed in certain phases of the manufacture of steel is typical. Not only was the piece system of wage payment used, but also recourse was made to pace setting by the employment of especially fast workers. Each worker was forced to keep up with other workers in his gang. Otherwise, the flow of work would be impeded and the slow worker would be hurried or easily detected by the congestion about him. Moreover, the output and speed of each gang were con-

stantly compared with those of other gangs, in order to discover in which parts of the organization output was falling behind.

Modern industry is characterized not only by a monotonous division of labor and by a rapid rate of speed, but also by numerous other objectionable features, such as great noise, intense heat, a foul atmosphere, extreme dampness. Some workers in slaughter houses must wear boots to protect themselves against the pools of blood in which they are forced to stand continuously. In many machine shops and textile factories the crash of the machines and the thud of the looms are so loud that it is necessary to shout instructions at the top of one's voice in order to be heard. The heat of blast furnaces, the grease and grime of machine shops, and the odor of fertilizing plants are notorious.

Although most workers gradually become accustomed to their working conditions, laborers are, nevertheless, still men and women and not automatons, creatures of flesh and blood and not robots of iron and steel. The speed and strain of modern industry, accompanied by its many dangers and disagreeable features, are responsible for the physical fatigue and nervous exhaustion of the workers, which finally results in general superannuation or some specific occupational disease.

**6. Industrial Fatigue and the Accident Rate.**—Fatigue is physiological and the result of a toxin in the blood which is produced by continuous physical or mental exertion. Rest and change are imperative, in order to permit nature to do her healing work of recuperation by rebuilding the worn-out cell tissue.

The more strenuous the occupation, the greater the need for a shorter working day and for increased leisure time for the toxin of fatigue to be removed. However, it would seem that the most strenuous and monotonous occupations are those which have been characterized by the longest hours of uninterrupted labor.

Even under the best of modern conditions fatigue sets in early. Charts have been drawn to illustrate the rapid rise of the fatigue curve. During the last few hours of continuous toil the fatigue point is the highest. Hence this period of the day is productive of numerous industrial accidents. The table on page 218 gives a classification of industrial accidents according to the time of day. As the forenoon progresses and the number of hours of continuous labor increases, the accident rate rises. There is naturally a falling off of industrial accidents during the lunch hour around noon, but the rate rises again in the afternoon hours to even higher levels than those of the forenoon.

**7. Prevention of Excessive Fatigue.**—The long day and the new strain in industry have combined to produce excessive fatigue and eventual superannuation. Their amelioration or elimination requires both a reduction in the number of hours of continuous employment and an improvement in working conditions.

It would be logical to suppose that, as the strain increases from occupation to occupation, hours of work would be correspondingly reduced. Unfortunately, such is not the case. Indeed, the very reverse has often been true. Hence the need not only of reducing hours of

INDUSTRIAL ACCIDENTS ACCORDING TO HOURS OF THE DAY<sup>1</sup>

7:00 to 7:59 A.M.....	79	1:00 to 1:59 P.M.....	111
8:00 to 8:59.....	150	2:00 to 2:59.....	156
9:00 to 9:59.....	193	3:00 to 3:59.....	227
10:00 to 10:59.....	246	4:00 to 4:59.....	260
11:00 to 11:59.....	257	5:00 to 5:59.....	145
12:00 to 12:59.....	49	All other hours.....	289

<sup>1</sup> This table is taken from "The Case for the Shorter Work Day" by Felix Frankfurter and Josephine Goldmark, published by the National Consumers' League.

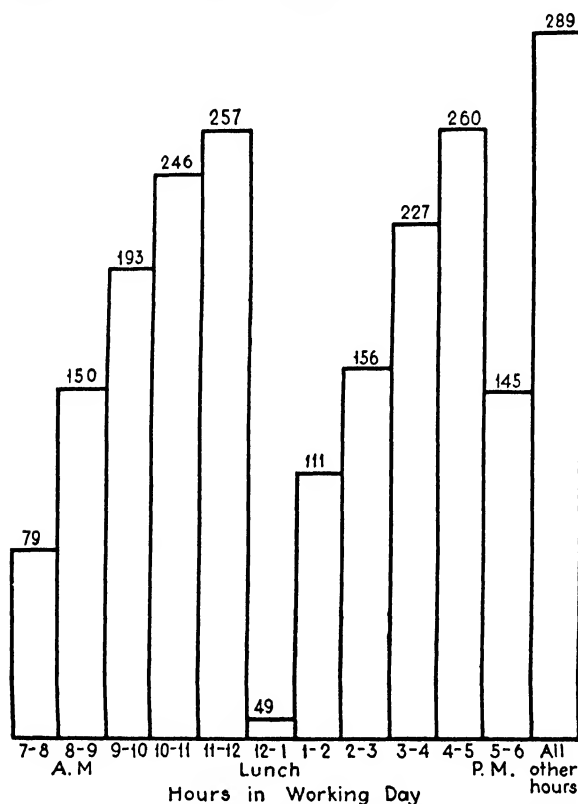


CHART 34.—Relationship between fatigue and accident rate.  
See table above.

work, but also of differentiating among occupations. Especially fatiguing work requires not only shorter hours, but also more rest periods.

Progressive employers have taken numerous precautionary measures to guard their workers against extreme fatigue growing out of the strenu-

ous, monotonous, and protracted conditions of their occupations. A few progressive firms have tried the experiment of serving light refreshments in the middle of the forenoon and afternoon. Others have utilized brief recess periods for physical exercise in the case of sedentary workers and for complete relaxation in the case of manual laborers. In most large establishments, however, continuous operation is necessitated by the use of power machinery, by the nature of the industrial process, and by the complex and interdependent character of business organization.

Where extreme specialization prevails, occasional transfers or changes of occupation afford the workers some mental and physical variety. This variation in employment often results not only in reduced fatigue, but also in increased efficiency. Increased productivity should make this expedient well worth while, from an economic, as well as from a humanitarian, point of view.

**8. Increased Comfort of the Worker.**—Increased comfort of employees at work is an important, practical method of reducing industrial fatigue. Scientific management may have made individuals work harder, but it has often added to their comfort and convenience. Thus modern management has sought to discover and to eliminate, wherever possible, many of the unpleasant features of industry, by removing such sources of discomfort and ill health as noise, dirt, grease, darkness, dampness and unpleasant odors.

Progressive employers have utilized experts to study the physical layout of their factories, not only to improve the routing of work and to provide a continuous flow of products, but also to secure adequate ventilation, a healthful, even temperature, and the best possible lighting system. A conscious effort is being made by modern management to save the employees' eyes and lungs, as well as their backs. New mechanical devices, such as automatic conveyors and small motorized trucks, have been utilized to lighten the burden of labor as well as to speed it. Other devices, such as blowers and suction tubes, have been introduced to remove unpleasant odors, dangerous dust, and other objectionable features of industry.

It was formerly felt that alert employees should always be standing, whether or not this was necessary to their jobs. Modern department stores, however, have provided seats for their sales forces which consist largely of women. In slack moments, while awaiting the next customer, tired shop girls may sit down behind the counters and rest themselves. Motormen on trolley cars also have been provided with seats, as well as with protection against inclement weather to which they were formerly exposed.

Pure drinking water, adequate wash rooms, and sanitary toilets should be provided by management for its employees. Locker rooms also are essential for those employees who find it necessary to change

their street clothing for that worn during hours of employment. Rest rooms also are necessary, especially where many girls or women are employed.

Some firms, such as the Curtis Publishing Company, have established reading and recreation rooms within their own plants for the enjoyment of their employees during the noon hour. Lunch rooms which serve meals to their employees, either free or at cost, are provided by some business houses.

**9. Improved Health of Workers.**—It is imperative that first-aid facilities and ordinary medical restoratives be available for common emergency needs resulting from sudden injury or sickness. If the establishment is a large one, a dispensary and a nurse should be provided. If the employment is a dangerous one, more complete hospital facilities are necessary, especially if the industry is located in a rural community or a small town. If located in a large city not far from a general hospital, the industry should contribute to, and cooperate with, local health facilities, rather than attempt to do more than merely to care for minor ailments or emergency needs.

The United Fruit Company, which has extensive establishments in Central America, maintains a hospital service there for its employees at one or more of its chief ports. Such a policy is necessitated by unhealthy environmental conditions and by the almost complete absence of other hospital facilities. This situation is not typical of most industrial establishments in the United States.

The personnel departments of some business organizations have required a physical examination of all applicants for employment, and also of all employees at periodic intervals thereafter. This may be done in order to determine whether or not an individual is capable of enduring the physical and mental strain required by his job, and also to discover how well he is withstanding it after employment. Such physical examinations, like mental and educational tests, may be found helpful in an effort to place and to maintain workers in those occupations for which they are best fitted. A few firms have established medical and dental clinics for their employees, on the ground that a general health program is essential to the promotion of industrial efficiency.

**10. Human Conservation and Wise Living.**—Human conservation involves better living, as well as better working, conditions. Private households, as well as factories, may be unsafe and unsanitary. Pleasure cars, as well as commercial trucks, kill passengers and pedestrians. Individuals often eat and drink themselves into their graves by their own intemperance and indiscretion, in addition to those who starve to death in the absence of human kindness or distributive justice. More efficient living, so often neglected by social reformers, is as important as improved working conditions. Each is essential to the good and

beautiful life. However, it is impossible to broaden this text on labor problems into a general sociological discussion which would transcend the limits imposed by space and time. Nevertheless, it seems pertinent to indicate that human conservation involves good living conditions, as well as good working conditions, and wise use of income and leisure, as well as mere increases in their amounts.

**11. Social Inertia and the Working Day.**—Extremely long hours of work were part of the traditions of the past, belonging to a deficit economy of pain, as contrasted with the present surplus economy of pleasure. The long day of the “ancient lowly” was due to poor methods of production and the absence of power machinery, as well as to the social institutions of status and caste. Past practices should not be condemned without some consideration of causal factors then existing.

On the other hand, it is equally stupid to congratulate ourselves on the present absence of exploitation in the matter of hours of labor and working conditions. Perhaps “man’s inhumanity to man” might be found greater today than in past centuries, were it possible to refine exploitation statistically in terms of increased technological progress in the arts of production. In short, long hours of work may have been necessary a century or so ago, in order to maintain even the crude standards of living then in existence, but they are inexcusable today, because of the enormous increase of productive power in the past few generations.

Social inertia manifested itself again in the great depression of 1929 to 1933, when the term “overproduction,” rather than “underconsumption,” was applied to agricultural surpluses, in spite of the fact that economic wants for food and clothing abounded. Poverty increased and bread lines lengthened, but the dwindling purchasing power of the masses dried up the deep rivers of effective demand into the shallow streams of impotent desire.

To express social inertia in terms of the problem of the present chapter, the negative expression “increased unemployment,” rather than the positive one “increased leisure,” has been constantly reiterated. Despite our tremendously increased productivity, many individuals have been working excessive hours. Despite increasing unemployment, there persisted the employment of children, who should have been in school, mothers, who should have been at home, and old men, who should have been retired on pensions. In short, our national leisure, like our national income, has been unequally divided, resulting in individual injustices, social inequalities, and economic depressions.

**12. Gradual Reduction in Length of Working Day in Century between the Old and the New Industrial Revolutions.**—In the absence of legislation on the subject, the length of the working day for men in this country has varied from time to time, from place to place, and from industry to industry. Differences in the number of working hours in various

localities, between agriculture and manufacturing, among various industries, and, finally, between organized and unorganized groups make difficult any generalizations as to the reduction of hours of work over a period of time. Nevertheless, a gradual decrease in the working day is perceptible over such a long period of time as the nineteenth century, and even during a shorter period such as the first generation of the present century.

As long ago as 1791, journeymen carpenters of Philadelphia adopted a resolution declaring that a day's work should commence at six o'clock in the morning and end at six o'clock in the evening. If this standard was the ideal working day for organized labor at that time, it is fair to assume that actual hours of work for the great masses of unorganized workers a century ago must have exceeded this limit of twelve hours a day.

Before the Civil War, workers in the building trades in our Eastern cities had secured the 10-hour day, but factory workers made slower progress. The 12-hour day was the general rule in the textile mills of New England. Agricultural laborers and domestic servants, then as now, probably worked a longer day and week than industrial workers.

The movement toward a shorter working day progressed rapidly during the industrialization of the United States after the Civil War. It was facilitated by the growth of labor organizations. Mechanical industries, such as manufacturing and transportation, advanced from the 12-hour day to the 10-hour day. Workers in the building trades proposed the then revolutionary ideal of an 8-hour day and made definite progress toward it.

The first generation of the twentieth century witnessed a further reduction in the length of the working day. Additional progress toward the 8-hour day was made in skilled trades and toward the 9- and 10-hour

HOURS OF WORK IN MECHANICAL AND MANUFACTURING ESTABLISHMENTS			
Year	Average working day, hours	Year	Average working day, hours
1840	11.4	1890	10.0
1850	11.5	1900	9.8
1860	11.0	1910	9.25
1870	10.5	1920	9.0
1880	10.3		

These averages for the decades of the nineteenth century are from "Labor Problems" by Adams and Sumner, p. 518, and those for the present century are from the U. S. Bureau of Labor Statistics for similar industries. The year 1930 was that of the recent great depression. Any comparable average would be misleading. See following section.

day in unskilled occupations. Thus the Census for Manufactures for 1919 showed that, of 9,000,000 workers employed in manufactures, almost half were employed in establishments where hours of labor were 48 hours per week, *i.e.*, where the 8-hour day prevailed. This ratio for



1919 compared very favorably with the 12 per cent ratio shown in 1914, and the 8 per cent ratio of 1909. This Census for Manufactures in 1919 showed also that, in the establishments surveyed, only 35 per cent of their employees were working 54 hours or more per week, *i.e.*, for 9 hours or more a day, and only 12 per cent for 60 or more hours a week, *i.e.*, for 10 hours or more per day.

The table on page 222 attempts to summarize the gradual reduction in the length of the working day in mechanical and manufacturing establishments during the past century.

The postwar period is divisible into four parts, a slight reaction during the minor business depression of 1921, a period of stability and progress during the next eight years, a major depression from 1929 to 1933, during which all standards were shattered, and a period of recovery following it, characterized by emergency legislation and industrial codes definitely limiting hours of work.

**13. Reduction in Working Week during the Past Generation.—** Estimates of hours of labor on a weekly, rather than a daily, basis show a similar decrease during the past few decades.

During the last fifty years, although no perfect measure of the trend is available, it is probable that the normal work week in American industry has decreased by 20 hours. Between 1890 and 1926, the standard hours of work in manufacturing industries have fallen from 60 to 50 a week; and from 1902 to 1926 the work week of bituminous and anthracite coal miners has been reduced by 6 hours, from 54.5 to 48.3 hours a week.<sup>1</sup>

The gradual shortening of the working week can be seen from the table of the National Industrial Conference Board shown at top of page 224, pictured graphically in Chart 35a.

A review of these estimates will indicate that the movement toward a shorter working day and week, at least in manufacturing industries, went forward steadily in the first decade of the present century. It was accelerated in the period of the World War, for the reductions in weekly hours of work from 1914 to 1919 were between two and three times as great as those achieved in any of the preceding five-year periods. Moreover, these reductions in average hours then achieved were retained fairly well in the years immediately following the war. In the decade from 1919 to 1929, despite the depression year of 1921, the average of weekly hours of work in manufactures remained fairly stable at between 50 and 51 hours, *i.e.*, midway between the 8- and 9-hour day.

The reduction in average weekly hours of work in the four years following 1929 shows the effect of the business depression, rather than social progress. It is an evidence of cyclical unemployment, or more accurately of irregular employment and underemployment, rather than

<sup>1</sup> Recent Social Trends," vol. II, pp. 828, 829.

of a long-run trend toward a shorter working day or week. The ravages of cyclical underemployment can be read in the table at bottom of this page, pictured in Chart 35b.

#### AVERAGE HOURS OF WORK IN MANUFACTURING INDUSTRIES, 1899 TO 1929<sup>1</sup>

Year	Hours of work per week	Year	Hours of work per week
1899	59.6	1919	50.8
1904	57.9	1921	50.3
1909	56.8	1923	50.4
1914	55.1	1929	50.6

<sup>1</sup> *Conference Board Bulletin*, p. 14, Feb. 20, 1933. U. S. census figures from 1899 to 1921, and those of National Industrial Conference Board for 1923 and 1929.

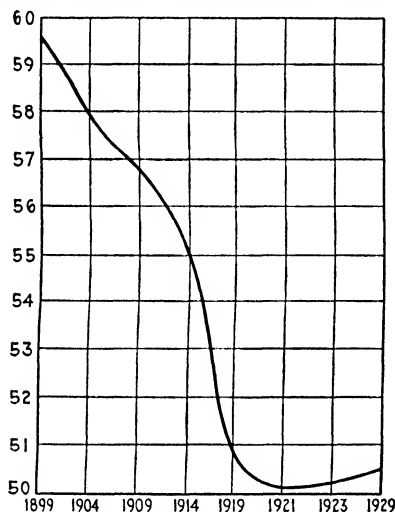


CHART 35a.—Long-run trend of weekly hours of work in manufactures (1899 to 1929). (*U. S. Census and National Industrial Conference Board*.)

See table above.

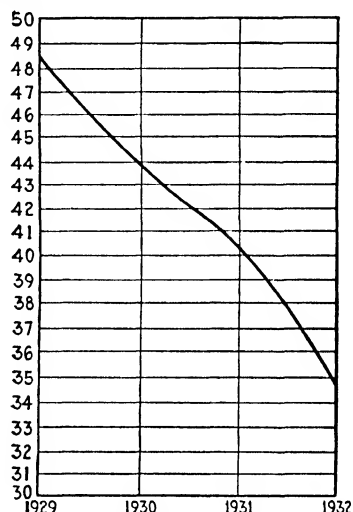


CHART 35b.—Short-run trend of weekly hours of work in manufactures (1929 to 1932). (*National Industrial Conference Board*.)

See table below.

#### AVERAGE HOURS OF WORK IN MANUFACTURING INDUSTRIES, 1929 TO 1932<sup>1</sup>

Year	Hours of work per week	Year	Hours of work per week
1929	48.4	1931	40.4
1930	43.9	1932	34.9

<sup>1</sup> National Industrial Conference Board's study of a select group of establishments. Although these results are believed to be typical of manufacturing industries in general, they were not arrived at by a general analysis of all manufactures, as in the former study. *Conference Board Bulletin*, Feb. 20, 1933, p. 15.

**14. Analysis of Average Working Day or Week.**—The findings of any research organization as to the length of the working day or week, no matter how careful and unbiased its work may be, must be discounted for the reason that it usually enjoys the cooperation of only the best business concerns. Those industries in which conditions are worse than

the hypothetical normal or mathematical average are not disposed to give publicity to their inadequate wages, long hours of labor, or miserable working conditions. The formulation of industrial codes in 1933 brought to light great variations in all these matters, as well as surprisingly low standards of wages, hours, and working conditions among communities, industries, and firms that may be termed "socially subnormal," or even "economically submarginal."

It has been observed before that any statistical average or median is a purely mathematical concept, be it that of an average-sized family, an average wage, or an average working day. The average working day or week, just discussed, was built up of several dissimilar elements. Even though limited to manufactures, the average number of hours of work in any given year varied greatly from men to women, from skilled to unskilled workers, and from organized to unorganized labor. Hence the National Industrial Conference Board's weekly average of between 50 and 51 hours, stable though it was from 1919 to 1929, is rather meaningless. This general average has much more significance when broken down into a 54-hour week or 9-hour day for most unorganized and unskilled workers and a 48-hour week or 8-hour day for most organized and skilled labor, achieved by collective bargaining, and for most women workers, achieved by legislation.

**15. Variations in Different Industries.**—The following table shows the average weekly hours of work in eleven different industries a decade ago and just before the great depression of 1929 to 1933. It indicates not merely relative gains in each industry, but also differences in hours of work among various industries at any given time.

AVERAGE HOURS OF LABOR PER WEEK IN ELEVEN INDUSTRIES<sup>1</sup>  
(1890 and 1928 compared)

Industry	Average hours per week		Percentage decrease during period
	1890	1928	
Bakeries.....	64.7	47.4	26.7
Boot and shoe.....	59.5	49.1	17.5
Building.....	52.0	43.5	16.3
Cotton goods.....	62.8	53.4	14.9
Foundry and machine shops.....	59.8	50.4	15.7
Blast furnaces.....	84.6	59.8	29.3
Marble and stone.....	54.7	44.0	19.6
Mill work.....	52.0	44.8	13.8
Book and job printing.....	56.4	44.3	21.5
Newspaper printing.....	48.2	45.1	6.5
Woolen goods.....	58.9	49.3	16.3

<sup>1</sup> WOLMAN, LEO, AND GASTOV PECK, *Labor Groups in the Social Structure*, "Recent Social Trends," vol. 2, p. 829.

The relatively short hours enjoyed by skilled and organized workers are well illustrated by the printing trades and construction industries. In 1890, they were midway between the 8- and 9-hour day, but by 1928 they had secured the 8-hour day with the 5½-day week. Textile industries occupied a central position in both 1890 and 1928. The steel industry was in last place in both years. Although achieving the greatest progress of all industries by reducing its working hours by almost 30 per cent, the steel industry achieved this gain from a 12-hour day in a 7-day week in 1890 to a 10-hour day in a 6-day week in 1928.

**16. Hours of Labor in Continuous Industries.**—A glaring illustration of excessive hours of work was the steel industry, where the 12-hour shift and the 7-day week were formerly in existence. The blast furnaces required continuous operation, and they were generally worked by two 12-hour shifts instead of three 8-hour shifts. Moreover, in making the change from the day to the night shift, or the reverse, half the workers were required to remain continuously on duty for the full 24 hours, while the other half had a 24-hour holiday, every other week.

The table in the previous section indicated that the average weekly hours of work in blast furnaces were 84.6 hours in 1890. In other words, a generation ago the 12-hour day and the 7-day week, with the continuous 24-hour shift, was universal in that industry. As late as 1910, according to the U. S. Bureau of Labor Statistics, about 20 per cent of all employees in the iron and steel industry were still working 84 hours a week, *i.e.*, on the 12-hour day and the 7-day week. The same survey disclosed that 40 per cent of all iron and steel employees in 1910 were working 72 hours a week, *i.e.*, on the 12-hour day, but for only 6, and not 7, days a week. They enjoyed a full day of rest every week and not every fortnight.

Public sentiment became so strong that various steel companies finally agreed to reduce their average working day and week. In 1923, the United States Steel Corporation publicly announced that the process of eliminating the 12-hour day, the 7-day week, and the 24-hour continuous shift in the steel industry had begun. Although improvement was not so rapid as conditions demanded, by 1928, as shown in the previous section, average weekly hours in blast furnaces were slightly below 60 hours. In other words, the iron and steel industry was on a 10-hour day and a 6-day week basis. The 24-hour continuous shift had been practically eliminated.

Long hours of work in the iron and steel industry, particularly in blast furnaces, are almost intolerable because of the excessive dangers, extreme heat, and fatiguing nature of that work. Moreover, the steel industry has been characterized also by low wages, due in part to the absence of collective bargaining.

Other continuous industries were sugar refineries, chemical factories, ice plants, coke ovens, paper and pulp mills, and public utilities. The

chief reasons for their continuous operation have been either the technical nature of the industry or the public necessity of continuous operation.

A continuous industry can be operated by two shifts of 12 hours each, by three shifts of 8 hours each, or even by four shifts of 6 hours each. Social welfare demands the transition from long hours of work to shorter hours, although it is not always so easy as that simple arithmetic would seem to indicate.

It is not difficult to regulate the hours of men employed in railroad yards, but it is not so easy to do so for railroad employees who are operating trains. However, Congress passed a law in 1907, which is still effective, which limits the hours of men in train service to 16. Of course, such legislation for this continuous industry merely fixes an outside maximum beyond which it is illegal to go. Actual hours of work are far less. The law was conservative in order to allow for peculiar conditions and emergency situations in the railroad industry. The average working day in the freight service was from 10 to 12 hours, but in the passenger service a much shorter day, sometimes as short as 6 hours per day on favorable runs, prevailed. Railroad workers employed in the yards were generally on an 8-hour day. The Adamson Act of 1916 provided a basic 8-hour day for railroad employees, but this pertained only to the computation of wages and not to a restriction of the actual hours of work.

**17. Hours of Labor in the New Industrial South.**—A study of labor conditions in southern mills before the depression of 1929 to 1933 indicated that textile factories in that newly industrialized area were threatening to take the unenviable place formerly held by the steel industry in the matter of long hours as well as low wages. The situation was described as follows in 1927:

While Henry Ford has inaugurated the 5-day week, many of the southern cotton mills retain the 11-hour day and the 12-hour night. They have the longest nominal working week of any considerable manufacturing industry in the United States. The 8-hour day is virtually unknown.

Legally, North Carolina and Georgia have the 60-hour week, South Carolina the 55-hour week, and Alabama no limit. All the southern states allow night work for women. When they work 12 hours a night, they have Saturday night and Sunday night for a vacation.

These are cold statistical statements. What do they mean?

A man working 11 hours a day in a cotton mill rises at 5:30, bolts a hasty breakfast, and hurries off to reach the mill before the last whistle at 6 o'clock. Probably he stands up all day at the machines, has 1 hour off for lunch, and leaves the factory at 6:00 p.m. His wife may work with him and go home to prepare the family supper after work.

The 12-hour night means in practice that a sixteen-year-old girl may stand at the machines from 6 p.m. to 6:15 a.m. with a 15-minute recess for lunch about midnight. I found one mill in Athens, Georgia, which gave no lunch period to

its night workers, except to weavers. The other workers ate a midnight sandwich while standing at the machines.

Night work is particularly gruelling, and in most mills there is no extra pay for it. It is not always easy to fill the night force. When there is a shortage of work, the employer may give jobs to day workers only on condition that some members of the family work at night.<sup>1</sup>

**18. Conclusions of U. S. Commission on Industrial Relations.**—The U. S. Commission on Industrial Relations began an investigation, authorized by Act of Congress in 1912, and published its final report in 1916. It marked an epoch in the history of labor problems. Although the report had some immediate and direct results on legislation, its chief influence was educational. The commission made a careful investigation of industrial conditions and gave full publicity to its findings. Its chief contributions were its revelations of industrial exploitation and of causes of industrial unrest. One of the most important of these was the existence of excessive hours of work. Some of these conclusions are worth repeating for their inherent soundness, for their expression of the enlightened public opinion of the period, and for comparison with the 1933 reconstruction problems and program.

1. The physical well-being, mental development, and recreational needs of every class of population demand that under normal circumstances the working day should not exceed 8 hours.

2. A large percentage of the workmen in manufactures, transportation, and mining work more than 8 hours a day. This is in marked contrast to the conditions of those whose economic position enables them to define the length of their own working day.

3. Practical experience has shown that the reduction of the working hours is in the interest not only of the worker and of the community generally, but of the employer.

4. The regulation by legal enactment of working hours of adult workmen is not generally practical or desirable except for public employees.

It is suggested that the commission recommend

1. In the so-called continuous operations, other than the movement of trains, requiring work both day and night for 6 or 7 days per week, the state and the federal government should directly intervene, so that the working hours should not exceed 8 per day nor extend to more than 6 days per week.<sup>2</sup>

**19. Legislation for Shorter Hours.**—Shortly after the Civil War, several states made attempts at legislation in favor of a shorter working day for men. These laws were either not enforced or not enforceable. Although the movement continued, laws for the reduction of the working day were successful only in public employments, quasi-public employ-

<sup>1</sup> BLANSHARD, P., "Labor in Southern Cotton Mills," quoted in *American Labor Legislation Review*, pp. 48 and 49, March, 1928.

<sup>2</sup> U. S. Commission on Industrial Relations, *Final Report*, vol. 1, p. 69, 1916.

ments, such as the railroads, and in dangerous industries, such as mining, where long hours of work not only were peculiarly injurious to the individuals employed, but also constituted a serious menace to the safety of the community.

The constitutionality of laws restricting the working hours of public employees was affirmed by a Supreme Court decision of 1903<sup>1</sup> which upheld the Kansas eight-hour day for all state and municipal employees.

A Congressional Act of 1912 provided an 8-hour clause for all contracts for governmental work and hence extended the 8-hour day beyond Federal employees. The Adamson Act of 1916, which provided a basic 8-hour day for railroad employees, was justified by the interstate commerce powers of Congress and sustained by the Supreme Court.<sup>2</sup>

In private employments the general rule before 1933 was that the regulation of hours of work by the government was constitutional only when the public welfare was clearly involved. The burden of proof to show the community, rather than the individual, effects of excessive hours of work rested on those in favor of a restriction of hours of work. The courts were very jealous of the personal and property rights, including freedom of contract, guaranteed by the Constitution.

Excessive hours of work in transportation and mining, however, were held to be so detrimental to safety and general welfare that legislative restriction of hours of work in these industries for adult male workers was justified. Thus, in 1898, the U. S. Supreme Court upheld the constitutionality of a Utah statute which limited hours of labor in smelters and underground mines to 8 hours a day.<sup>3</sup> Most important mining states now have 8-hour laws for these particular industries.

On the other hand, attempts to legislate concerning hours of work in ordinary private industries were not viewed as constitutional, at least before 1933. Thus the New York 10-hour law for bakers was held in 1905 to be an unconstitutional violation of freedom of contract and an undue extension of the police power of the state.<sup>4</sup>

Other court decisions were conflicting. Thus the Oregon 10-hour law for every "mill, factory, or manufacturing establishment" was sustained in 1917.<sup>5</sup> On the other hand, a general Federal 8-hour law for Alaska was held to be unconstitutional.

**20. Progress toward Eight-hour Day Abroad.**—The movement for the universal 8-hour day, imposed by legislation, may be said to have originated in Victoria, Australia, about a half century ago. New Zealand followed with a compulsory 8-hour day at about the turn of the

<sup>1</sup> *Adkins, vs. Kansas*, 191 U. S. 207, 1903.

<sup>2</sup> *Wilson vs. New*, 243 U. S. 332, 1917.

<sup>3</sup> *Holden vs. Hardy*, 169 U. S. 366, 1898.

<sup>4</sup> *Lochner vs. New York*, 198 U. S. 45, 1905.

<sup>5</sup> *Bunting vs. Oregon*, 243 U. S. 426, 1917.

century. The wage boards of most Australian states have long been empowered to fix the maximum number of working hours per week. The general standard has been that of an 8-hour day or 44-hour week.

Great Britain and many other European countries also have legislated as to the length of the working day in most industries. The 8-hour day was fairly well established by the time of the World War.

The 8-hour day was stressed by the First International Congress in Washington, in 1919. It was one of the early ideals of the International Labor Office in Geneva, which has consistently sought to raise and to standardize general conditions of employment throughout the entire world. It is apparent that higher labor standards in any country are menaced by lower standards in other nations.

**21. Progress toward Eight-hour Day in the United States.**—Within the United States, progress toward the 8-hour day was made chiefly by collective bargaining. It has been shown that working hours in organized trades were decidedly lower than those in unorganized industries. The 8-hour day and the 44-hour week were zealously guarded by the American Federation of Labor and other trade unions in this country during the World War, and even before that general period.

Progress toward a universal 8-hour day in this country was impeded by the absence of such legislation in most states, and by unfavorable court decisions in those states which did attempt to reduce hours of labor by legislative enactments. As just indicated, American states, at least prior to 1933, had been willing, or permitted by the courts, to limit hours of employment only in the case of public employees, women and children, and workers in dangerous or extremely fatiguing occupations.

Nevertheless, public sentiment in favor of the 8-hour day increased steadily in the first generation of the present century. The 24-hour day was divided into three parts, each one of which was provided for in the following bit of doggerel verse.

Eight hours for work, eight hours for play,  
Eight hours for sleep; make up the full day.

The recently increased productivity of industry suggests the division of twenty four hours into four 6-hour shifts, instead of three 8-hour shifts.

**22. Interpretation of the Eight-hour Day.**—It would seem that the 8-hour day has had three distinct meanings: (1) a straight 8-hour day under which overtime was eliminated except for emergencies; (2) an 8-hour shift with three distinct groups of workers employed in continuous industries; and (3) a basic 8-hour day in which overtime was permitted and in which the 8-hour day was merely the basis for measuring wages.

Alleged attempts to shorten the working day have frequently been only devices to secure increased wages. Thus we must distinguish



between the 8-hour day and the basic 8-hour day. The latter provision did not prevent an employee from working more than 8 hours, for it provided merely that hours of work in excess of 8 hours should be construed as overtime, to be paid for at higher rates of pay. The Adamson Act for railroad workers was of this character. It provided that "8 hours shall, in contracts for labor and service, be deemed a day's work and the measure or standard of a day's work for the purpose of reckoning the compensation for services of all employees."

It is apparent, however, that provisions which classify excessive hours of work as overtime tend to eliminate them. Overtime is paid for at a higher rate than is ordinary labor, sometimes at a 50 per cent increase. Hence the employer will not use overtime employment except for emergency needs. In this way, provisions which classify excessive hours of work as overtime, and which make overtime expensive, tend to reduce the length of the actual working day. The basic 8-hour day tended to standardize, as well as to raise, the general level of employment.

**23. Shorter Working Week.**—A shorter working week, as well as a shorter working day, was made possible and desirable by the increased productivity of the new industrial revolution. Even before the crash in 1929, much progress had been made toward the 5½-day week in skilled trades and clerical occupations. Saturday had become a half holiday for many workers throughout the year. Other workers, employed Saturday afternoons in the winter months, had that entire day off in the summer months, owing to the growing custom of Saturday closing in warm weather.

Several years before the great depression, Henry Ford had publicly announced his advocacy of a weekly two-day holiday of Saturday and Sunday, which would permit city dwellers the opportunity of getting back to nature. Some heads of great mercantile establishments agreed that a 5-day week was desirable for their employees but wished to keep their stores open for 6 days in the week. They were as desirous that the public take advantage of Saturday sales as Mr. Ford was that a civilization on wheels be permitted the enjoyment of Saturday motoring. Some enlightened employers were willing to go along on a 5-day week without Saturday closing by the device of staggering the extra weekly holiday over 6 and not 5 days. Different groups of employees could be given different days off to remain at home, to motor in the country, or to do their own shopping.

**24. Six-hour Day and Five-day Week.**—The growing problem of unemployment, greatly intensified by the depression from 1929 to 1933, stimulated interest in further reductions in the working day. Labor leaders, men in public life, and progressive employers began talking in terms of a future working day of 6 hours, in contrast to the former ideal of an 8-hour day and the reality of even longer hours of work.

The economic depression from 1929 to 1933 brought to a head the previous desire for a shorter working day and week. In 1932, the secretary of the American Federation of Labor stated that "there is no possibility of putting men back to work unless a shorter work day and week is established."<sup>1</sup> A specific recommendation for a 5-day week and 6-hour day was offered to the 1932 Convention of the American Federation of Labor "not as a cure-all, but as a stop-gap or basis on which to take up the slack caused by technological unemployment."<sup>2</sup>

The great depression resulted in a drastic reduction of the working week. Employers sought to distribute as widely as possible the smaller amount of employment by giving each worker only two or three days of work a week, rather than a full week for some employees and complete unemployment for others. Employment was irregular and inadequate. Holidays were imposed, rather than granted; they were uncertain, rather than routine matters. In essence, they were payless days of unemployment, rather than regularly scheduled weekly holidays with compensation.

**25. Working Hours under the Reconstruction Program.**—The National Industrial Recovery Act of 1933 sought to increase employment as well as to raise wages. Industrial codes, formulated or imposed, went far beyond the limits of the "share-the-work" slogan of the depression. President Roosevelt's blanket code for industries which had not formulated acceptable codes contained the following restrictions as to hours of work.

It was forbidden to employ employees, other than factory or mechanical workers, for more than 40 hours in any one week, and to reduce operations to below 52 hours in any week, unless such hours were less than 52 hours before July 1, 1933, and in such case not to reduce hours at all. In other words, more employees, each working fewer hours, should maintain the same total number of store or office hours.

It was forbidden to employ factory or mechanical workers or artisans more than a maximum week of 35 hours until December 31, 1933, but with the right to work a maximum week of 40 hours for any six weeks within this period, provided that no worker was employed more than 8 hours in any one day.

These prohibitions did not apply to employees in establishments employing not more than two persons, in towns of less than 2,500 population, or to professional groups, or to managerial positions paying more than \$35 a week, or to employees on emergency maintenance or repair work, or to special cases where restricted hours of skilled workers on continuous processes would reduce production, but, in such special cases, time and one-third should be paid for hours in excess of the maximum.

<sup>1</sup> Frank Morrison.

<sup>2</sup> John J. Manning, secretary-treasurer of the union label trades department.

The drastic character of these emergency regulations concerning hours of work is evident. Their application was not limited to public employees, to women and children, or to men in dangerous occupations. They applied not to an individual state, but to the entire United States, on the theory that most products found their way into interstate commerce.

Past judicial decisions concerning previous regulations of hours of work make court decisions concerning this phase of the National Industrial Act of special interest. The Supreme Court must nullify these codes, or reverse its previous action, or sidestep the problem, or treat it as a temporary national emergency comparable to the war. Resort may be made to the legal fiction that these codes were drawn up by industries or voluntarily accepted by them. Even the President's blanket code may be held to be a governmental suggestion, which patriotic enterprisers imposed on themselves, or a partnership with the President which was welcomed by all employees who cared to sign the standardized, but "voluntary," agreement mailed to them.

The drastic reduction in hours of work brought about by these industrial codes was as revolutionary as the change in political philosophy which they embodied. From the very start, administrative interpretations of all sorts were necessary, and some exceptions or modifications were made to meet individual problems. But executive orders were promptly issued against evasions by early closing of establishments, and against subterfuges, such as scheduled rest periods which were not expected to be consumed regularly or entirely, or two-hour luncheon intervals with the expectation that employees would stagger this time by remaining late or returning early.

In the hearing on the proposed steel code, it was suggested by that industry that its weekly hours of work be interpreted broadly and not narrowly, *i.e.*, not for each and every week, but as a weekly average over a six months' period. Such an interpretation would have permitted the long day in steel to continue, provided there were sufficient weeks of unemployment or days of irregular employment in the six months' period. It would have been just as meaningless as a physician's quotation of an average temperature in the case of a patient suffering from intermittent chills and fever, which sent the mercury alternately above and below the normal healthy body temperature.

Supported by strong public opinion, the Federal administration attempted to distinguish between firms complying and those not complying with these provisions of the industrial codes concerning hours of work. The former group were rewarded with the "Blue Eagle" insignia, which was displayed conspicuously to invite patriotic patronage. Stamped on goods, it was as effective as the union label in proclaiming production under acceptable labor conditions. Such a device, however, was tem-

porary rather than permanent, and more effective with consumption goods and in retail stores than with capital goods and in wholesale or manufacturing establishments.

**26. Economic Aspects of a Shorter Working Day.**—There is much diversity of opinion among advocates and opponents of a shorter working day or week as to its economic possibility and desirability. Employees welcome it, provided wage rates are so increased that total earnings are not reduced or at least do not decline proportionately with hours of work. Employers oppose shorter hours when it means increased wage rates or the same earnings for fewer hours. Even when merely a sharing of work by using more employees for fewer hours at the same rate of pay, some employers have objected to shorter and more frequent shifts because it forces the employment of inferior workers at the same time that it cuts the time and earnings of superior workers.

The National Industrial Recovery Act reduced hours but sought to maintain labor earnings. These higher wage rates resulted in increased costs of production, which had to be passed on to the consuming public or be taken out of profits. However, increased prices of products set up sales resistance and brought some public criticism.

**27. Relation among Leisure, Production, and Consumption.**—There is little doubt as to our latent ability to consume what we produce, provided purchasing power and leisure are widely distributed, and misdirected production, oversaving, and underconsumption are avoided. A shortening of working hours, accompanied by adequate purchasing power through the maintenance of wages, will stimulate increased consumption.

It is conceivable, although not probable, that the future may witness the opposite extreme from that of our past paradox of plenty, *viz.*, a temporary inability to produce as much as is necessary for our rapidly rising ideals of consumption. An undue shortening of the working day and of the working week may possibly result in such a decrease of production that progressive standards of living will be jeopardized, unless mechanization and technological progress continue at an accelerated speed.

It is obvious that, in the long run and on the whole, production and consumption balance. It is apparent also that a great reduction in hours of work will be accompanied, temporarily at least, by some decrease in production. In a given state of the arts, a choice must be made between the alternatives of increased wealth and increased leisure or a happy balance between them.

**28. Shorter Hours and the "Lump of Labor."**—Many workers desire a reduction in the working day, not only to secure increased leisure and higher wage rates, but also to guard against unemployment. Some labor leaders fear that excessive hours of work will lessen the lump of

labor and force workers in a particular industry, or their fellows, out of a job. On the other hand, if the day's work be reduced from 12 to 8 hours, such a reduction of the working day, it is incorrectly alleged, will create employment for 50 per cent more workers in the industry.

Such reasoning is fallacious, for it is based on erroneous assumptions. The lump of labor is merely a local and a short-run phenomenon. In the long run, there is no fixed demand for labor, even of a given type. In its final analysis, the demand for labor is conditioned by the productivity of labor. If the increased productivity of labor is accompanied by a proportionate increase in wages, labor receives an additional purchasing power, which constitutes an additional demand for its own products and thus creates more employment. On the other hand, a shorter working day, like the limitation of output, may raise prices to consumers and reduce higher money wages to lower real wages, thus reducing effective demand and employment. Neither a shorter working day nor a limitation of output will protect workers in the long run against unemployment.

### 29. Hours of Work and the Diminishing Productivity of Labor.—One

favorable aspect of this problem lies in the fact that a reduction in hours

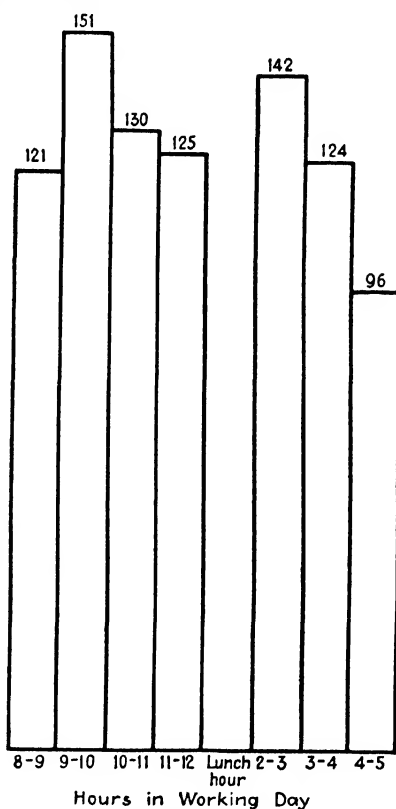


CHART 36.—Relationship between fatigue and productivity. (Prepared from indices given by J. B. Andrews in "Labor Problems and Labor Legislation," p. 38, 1932.)

See table below.

PRODUCTIVITY AND FATIGUE<sup>1</sup>

Hour	Product	Percentage decrease or increase over previous hour	Hour	Product	Percentage decrease or increase over previous hour
8 to 9	121		2 to 3	142	+14
9 to 10	151	+25	3 to 4	124	-13
10 to 11	130	-14	4 to 5	96	-23
11 to 12	125	- 4			

<sup>1</sup> ANDREWS, J. B., "Labor Problems and Labor Legislation," p. 38, 1932.

of work is not accompanied by a proportionate decrease in production. Increased efficiency and decreased fatigue of the workers may more than offset a modest reduction of the working day. Long hours of work, continued beyond a certain point, produce a diminishing rate of productivity. The effects of increasing fatigue can be seen in the following study.

The hourly output of six experienced typesetters was studied in a controlled experiment to determine the effects of fatigue on productivity. The table on page 235, illustrated in Chart 36, gives an hourly index of their combined productivity. The point of maximum productivity was reached during the second hour, after which it declined slowly until lunch time. After two hours of rest, productivity rose again to a point higher than the first morning hour but lower than the second morning hour. Productivity per hour declined steadily in the afternoon and the greatest decline was experienced in the last hour worked. The working day in this study was one of only seven hours, broken by two hours for lunch. A longer and more continuous day of arduous toil would probably show a more rapidly declining rate of productivity to a much lower degree of productivity during the last hour or two worked.

**30. Economic Incentive of a Shorter Working Day.**—Opponents of shorter hours often predicted dire results from this expedient, such as a great increase in labor costs and a serious decrease in productive capacity. Ultraconservatives even went so far as to prophesy that the shorter working day would cause so great an increase in the price of the product that a loss of both the foreign and domestic markets would result. Nevertheless, it has been repeatedly shown that a reasonable curtailment of hours of labor has not resulted in a serious increase in labor costs. In some cases, the shorter working day has been so great an economic stimulus that no loss at all in production was caused by a slight decrease of hours.

The British Health of Munitions Workers Committee, for illustration, found that a reduction of from 7 to 20 hours per week in no case resulted in more than an insignificant reduction in the total output, while on the average it produced a substantial increase in production. The Illinois Industrial Survey of the Hours and Health of Women Workers discovered that the reduction of the weekly hours of work from 55 and 54 to 48 hours resulted, not in a decrease in production, but in an actual increase of output.

**31. Social Advantages of a Shorter Working Day.**—The health-in-industry movement has its quantitative side in a reduction of the length of the working day, and its qualitative side in an improvement of working conditions. The social advantages of the shorter working day may be summed up under the general headings of health, safety, education, and morality.

The relation between long hours of work and health was discussed in a previous section. The physiological character of fatigue was demonstrated. Long hours of work are productive of fatigue toxin, which lessens organic resistance to both general and occupational diseases. The modern attitude toward disease is not only that of reducing exposure to it, but also that of building up resistance against it. Industrial fatigue is a devitalizer which menaces both health and longevity.

The role of excessive hours of work in the matter of industrial accidents also has been indicated. Chart 34 showed that the number of industrial accidents per hour mounts up as the number of hours of continuous employment increases. Hence the safety, as well as the health, movement requires a reduction of excessive hours of labor and an improvement of working conditions.

The problem of industrial fatigue has its moral and educational aspects as well as those of health and safety. Bodily exhaustion is unfavorable to the exercise of self-control or the finer forms of self-expression. Excessive hours of work minimize the amount of leisure time, so that little opportunity is given for either formal education in the night schools or informal education in the various cultural institutions of society. The exhausted worker has little time or inclination for public libraries, museums, and art galleries. He readily yields to coarse pleasures and cheap thrills and to the unsocial influences of debasing amusements.

Idleness, intemperance, and other forms of dissipation were predicted by the foes of the shorter working day. Few of these evil effects have come to pass with a general reduction in hours of labor. The increase of leisure time has not been abused by most workers, certainly no more so than by numerous wealthy individuals within the leisure class. Indeed, many students of the problem of fatigue in industry have felt that the dissipation of many workers was a violent mental reaction to excessive hours of continuous and monotonous toil. Drunkenness and other forms of indulgence were sought because they brought temporary relief and immediate enjoyment to the jaded nerves of the tired workers. A decrease in the length of the working day and an increase in leisure time will probably result in more wholesome forms of recreation. Dissipation will be succeeded by recreation and education, as the leisure of the workers is increased.

In conclusion, little can be said to justify the existence of excessive hours of work in an enlightened modern community. Among the most conspicuous effects of such industrial exploitation are the loss of health, rest, and recreation, and the absence of the necessary leisure time for educational opportunities, social pleasures, and domestic duties. From both a social and an economic point of view, it is difficult to justify the fatiguing long day for certain groups of workers and the indolent

indulgence of the leisure classes, or to reconcile the 10-, 11-, and 12-hour day in some occupations with the simultaneous existence of unemployment and underemployment in other occupations.

**32. Summary.**—*Long hours of work, as well as inadequate wages,* have been a frequent cause of industrial unrest. Hours of labor have often been the longest where wages have been the lowest. Social welfare demands not only wages sufficient to maintain decent standards of living, but also a working day which will permit sufficient leisure for health and recreation.

Human conservation involves not only the reduction of excessive hours of labor, but also the improvement of working conditions. Modern industry is characterized not only by increased productivity, but also by an increased nervous and physical strain. Although most employers have not favored a reduction of the hours of labor, many of them have sought to lessen the burden of industrial fatigue by various improvements in working conditions. Many of them are designed to increase the comfort and to preserve the health of their employees. Management is seeking to reconcile industrial efficiency with human welfare.

Although the 8-hour day prevailed in many skilled trades, the 10-hour day was, until recently, the general rule in unskilled occupations. Hours of work were still longer in continuous industries. There was sometimes no provision for one day of rest in seven. Excessive hours of labor on the part of some workers and unemployment on the part of others constitute a serious challenge to our economic system. Leisure and exploitation, like poverty and riches, are striking contrasts in our present social order.

Within the United States, progress toward the 8-hour day for adult male workers has been accomplished by collective bargaining, rather than by state legislation. In the case of women and children, workers in dangerous occupations, employees in public or quasi-public occupations, legislation has restricted the length of the working day. But many groups of unorganized and unskilled laborers have profited neither by legislation nor by collective bargaining in the reduction of the hours of employment.

Even before the great depression of 1929 to 1932, continuous industries had abandoned the 12-hour day and the continuous 24-hour shift. At the other extreme, the 6-hour day and the 5-day week were under discussion. The National Industrial Recovery Act, and the codes formulated in accordance with it, provided for a general reduction in hours of work and the elimination of some of the worst abuses of the past.

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**Questions for Discussion**

1. What does human conservation involve?
2. Show how the length of the working day has gradually decreased.
3. What do you understand by a continuous industry and by the 24-hour shift?

Illustrate.

4. What were some of the findings of the Commission on Industrial Relations as to hours of work and what were its recommendations?
5. What do you understand by the new strain in industry? Causes?
6. Do shorter hours of work necessarily mean higher labor costs? Why or why not?
7. What do you understand by the "lump of labor?" Show its relationship to shorter hours.
8. Indicate the legal limits of legislation in the United States toward a shorter working day.
9. What do you understand by the 8-hour day?
10. Indicate the social advantages of a shorter working day.
11. What are its economic possibilities?

**Topics for Investigation**

1. Legislation toward a shorter day in Europe or in some country of Europe.
2. The industrial South and the working day.
3. The working day in the newly industrialized areas of the world.
4. Progress of the 8-hour day in the United States.
5. Nature and causes of fatigue.
6. Industrial fatigue and the accident rate.
7. The program of some progressive firm for the reduction of fatigue and the increased comforts of its employees while at work.
8. Health program of a progressive employer.
9. Program of a 5-day week.
10. Practicability of a 6-hour day.
11. Reduction in length of working day under industrial codes of 1933 and 1934.

## CHAPTER IX

### INDUSTRIAL HAZARDS AND SOCIAL INSURANCE

#### HUMAN SAFETY AND FINANCIAL COMPENSATION

Modern methods of production are not only strenuous, but also dangerous. The last chapter stated that the problem of human conservation involves not only the amelioration of industrial fatigue, but also the reduction of accidents. It was demonstrated that there is a causal relationship between excessive hours of work and industrial accidents (turn back to Chart 34, page 218).

**1. Extent of Industrial Accidents.**—The absence of complete and reliable statistics makes it impossible to state definitely the number and severity of industrial accidents within the United States. The jurisdiction of the Federal government extends merely over accidents in interstate commerce. In some states, the statistics of industrial accidents are well kept, but in other states they are incomplete and inaccurate. There is little uniformity throughout the country in methods of accounting and in the forms used for recording industrial accidents.

The future development of protective legislation for the workers must be accompanied by the compiling of more complete and more accurate statistics. The common acceptance by all states of standardized forms for reporting industrial accidents would be a great step forward. The American Association for Labor Legislation is at present seeking the universal adoption of such an improved and standardized form.

The National Safety Council estimated that there occurred in 1919 about 23,000 fatal accidents, about 575,000 non-fatal accidents involving four weeks or more of disability, and a grand total of about 3,000,000 accidents of varying degrees of severity in all industries throughout the United States. In 1923, it was estimated that the annual number of accidents involving permanent total disability were about 1,700, those involving permanent partial disability were over 100,000, and those involving temporary total disability were over 2,000,000. The annual number of fatalities in industry was estimated at over 21,000.<sup>1</sup>

In contrast to this high mortality rate for American industry, the International Labour Office reported that the number of fatal work accidents in 1923 was 2,082 in France and 3,302 in England. In Germany, in 1925, the corresponding number was 5,285. In other words, the combined annual industrial fatalities of France, England, and Germany

<sup>1</sup> *Monthly Labor Review*, November, 1923.

were only between 10,000 and 11,000, or less than half those in the United States, in spite of the fact that the combined population or the total number gainfully employed in all these countries was greater than those of the United States.

There seems to have been no great reduction in the number of industrial accidents. Indeed, a slight increase seems to have been the case. Thus the total number of industrial accidents in New York State increased from 358,440 in 1924 to 419,072 in 1931. Of this number of industrial accidents, fatalities increased from 1,684 in 1924 to 1,793 in 1931.<sup>1</sup> However, some of this apparent increase may have been due to more complete reporting. Again, this rate of increase in industrial accidents was not disproportionately greater than the increase in population or in the general accident rate, automobile casualties included.

Although new safety devices have continually been installed, new hazards of industry have likewise constantly appeared in the continued march of technological progress and in the continuous process of invention and discovery. It would seem that the annual number of industrial fatalities for the entire United States is still from 20,000 to 35,000, and that the total annual number of industrial accidents is several millions. These figures are exclusive of non-industrial accidents and of sickness and death due to occupational diseases. If either or both of these causes of illness, injury, or death were included, the estimate would be even greater.

**2. Costs of Industrial Accidents.**—Because of industrial accidents alone, a quarter billion working days are lost each year, representing a total annual cost of a round billion dollars. Such attempts to express in pecuniary terms the financial costs of industrial accidents are as common as the numerous attempts to evaluate the financial costs of the World War. But their overwhelming monetary totals seem to minimize, rather than to magnify, the human costs of these sacrifices of life and limb. By either the human or the financial measure, however, it may be demonstrated that the carnage and cost of war can be equaled by those of industry in times of peace.

To employ a telling comparison frequently made, the industrial accidents of a single year in this country alone equal the average annual casualties of the American Civil War, plus all those of the Philippine War, increased by all those of the Russo-Japanese War. As many men are killed each fortnight in the ordinary course of work as went down with the *Titanic*. This single spectacular catastrophe appalled the civilized world and compelled governmental action in two hemispheres; while ceaseless day-by-day destruction of the industrial juggernaut excites so little attention that few states take the trouble to record the deaths and injuries.<sup>2</sup>

<sup>1</sup> Cf. *World Almanac*.

<sup>2</sup> DOWNEY, E. H., "History of Work Accident Indemnity in Iowa," pp. 1-5.

Such is the price in human life and well-being that modern industrial America is paying for speed, carelessness, ignorance, and indifference.

**3. Causes of Industrial Accidents.**—An analysis of the general causes of industrial accidents reveals that they are divisible into several great groups, which may be termed the mechanical, the physiological, and the psychological causes of industrial accidents. A simpler division is that into the mechanical and the human causes of industrial accidents. Many disasters represent a combination of both elements. The immediate and particular causes of industrial accidents vary with individuals, occupations, and particular instances.

Industrial accidents originate in the character of modern methods of production and in the failure of the human element to adjust itself thereto. Modern technology makes use of new and powerful forces of nature, such as steam and electricity. Their increased powers of destruction are as great as their increased powers of production. Moreover, modern industry is now carried on by complicated machinery rather than by simple tools. The average worker, who is not able to control the complete working of these machines, generally confines himself to a single operation. He is in danger, not only because of a possible failure of the machine or of himself, but also because of the ignorance or carelessness of other similar specialists. The mistake of a railroad switchman or the carelessness of a fellow miner, for illustration, may result in the killing or maiming of numerous other individuals. The interdependence of modern economic society is well illustrated in the matter of industrial accidents.

Human nature itself is neither perfect nor automatic. Indeed, it is doubtful whether it is entirely fitted for the task placed upon it by modern mechanical industry. The worker cannot adjust himself perfectly to the routine of his task or to the continuous and exact motions of the machine. Attention is bound to wander and fatigue to set in. That the human organism cannot respond quickly, accurately, and continuously is a great contributory cause of industrial accidents. Again, the consequences of a failure of the human element are far greater under modern conditions than before the development of our great mechanical inventions and the advent of the factory system.

**4. Dangerous Occupations.**—Industrial accidents can be classified according to occupations, some of which are more hazardous than others. Among the most prolific of accidents are the railroads, the mines, building and construction work, and numerous types of manufacture.

The Interstate Commerce Commission has long compiled statistics concerning accidents on railroads, the hazardous character of which has been magnified because of fairly complete and accurate recording. Nevertheless, a comparison of American statistics with those of Germany and England will show that our past record in the matter of railroad

accidents, like that in other hazardous occupations, has been far from satisfactory.

Of recent years, great progress has been made in the matter of increased safety on the railroads. The use of better signal devices has lessened the chance of wrecks and the introduction of steel coaches has decreased the fatality of them. One purpose of the full-crew law was to guard the safety of the passengers by requiring that sufficient trainmen accompany each train. A Federal law requiring the use of automatic couplers, instead of the former hand-adjusted coupling pins, greatly lessened the number of accidents to laborers at work in the yards. As a result of these safety appliances and safety measures, the number of trainmen killed per thousand employed declined from over four in 1917 to less than two in 1921 and to less than one in 1924. This splendid record testifies eloquently as to what has been achieved toward increased safety on the railroads. It indicates what could be done in other industries by increased care and supervision.

The mines, as well as the railroads, represent a dangerous occupation, although mining hazards are confined chiefly to the workers in that occupation. But the regulation of the mines, unlike that of interstate commerce, falls within the jurisdiction of the individual states. Consequently, there is a wide divergence throughout the country in the matter of protective legislation therein. Moreover, most records of mining accidents are compiled by state officials, although the Federal Bureau of Mines has sought to discover the extent of, causes of, and possible remedies for, our numerous fatalities in mines. It is an important fact-finding, research, and educational body, although it has little authority.

It would seem that the mining industries of the United States have taken an average annual toll of more than 3,000 lives or at the rate of from 3.5 to 3.7 per thousand 300-day workmen. Coal mines take the first place in the matter of mining fatalities, for they have killed on an average each year 4.40 out of each thousand miners working on a 300-day basis. Every million tons of anthracite cost 5.51 lives and every million tons of bituminous coal cost 3.90 lives.<sup>1</sup>

In many of the coal-producing countries of Europe, the accident rate is far less than in our own country. Thus in the United States for the ten years from 1911 to 1921 the number of coal miners killed per thousand employed was three times as great as in Great Britain, although the American coal mines are generally more accessible than the British. In contrast to many European countries, our fatality rate in mining is high in comparison with the number of workers employed, although not so high in comparison with a given unit of output. These statistics reveal

<sup>1</sup> U. S. Bureau of Mines, *Bulletins* 246 and 248.

the fact that our country has achieved a rapid rate of production, but at a fearful human cost. Incidentally, our methods of mining have been very wasteful of natural, as well as our human, resources.

The reduction of mining fatalities requires adequate legislation and its strict enforcement. If left to individual initiative, some mines would be operated in a fairly safe manner, but others would remain very dangerous. Again, the absence of safety legislation would penalize the humane operator in his competition with careless and reckless operators. The installation of safety devices and the use of careful methods of mining would increase his costs of producing coal as compared with those of indifferent operators. Hence the necessity of coercive measures.

The Federal character of our government prevents the passage of adequate national legislation, such as prevails in many European countries. Standards of safety in mining are fairly high in some American states but woefully inadequate in others. The passage of workmen's compensation laws in most states has led to the keeping of more complete and accurate records, as well as the introduction of safety devices. A number of states have established testing stations for the study of safety in the mines.

Many precautions should be taken in mining, because of its dangerous nature. Thus, the use of safety lamps and approved types of explosives, the proper support of passageways, and other protective measures reduce mine fatalities. Explosions from *fire damp* can be prevented or reduced by using what is known as "rock dusting." In spite of the educational campaign of the American Association of Labor Legislation, only a few American states have made rock dusting in coal mines compulsory by legislation of this type.

The same lack of uniform legislation and the same absence of complete and reliable statistics are found in manufacturing and building construction. State inspection of factories, buildings, elevators, boilers, etc., is satisfactory in some states but little more than a legal fiction in others.

Some of the chief dangers in manufacturing industries lie in the presence of unguarded machinery and in the continued use of hasty and unsafe methods of production. Although antiquated machinery is quickly scrapped for something better, the same zeal has not been displayed in substituting cautious and safe methods of production for the more hazardous. But the passage of workmen's compensation laws in most states secured a surprisingly rapid improvement. Industrial accidents became expensive and therefore uneconomic. Thus in the steel industry in 1910, before the passage of workmen's compensation laws in most industrial states, it was discovered that 245.2 out of every one thousand 300-day workers were injured, 1.86 fatally and 2.72 per-

manently.<sup>1</sup> Within the last decade, however, both accident rates and mortality rates have been very much reduced.

**5. Preventive and Remedial Measures.**—The prevention or reduction of industrial accidents requires the cooperation of employer, employee, and state. In addition, numerous organizations, such as insurance companies, are directly interested in increased safety and improved health. The safety-first movement has crystallized in the formation of a national organization. Its white cross stands for the prevention of injury in the same way that the red cross stands for first aid to the injured and suffering.

It is necessary that the employer utilize such safety appliances as are available and that he employ only such industrial methods as are most conducive to industrial safety and health. But the employer often discovers that he has to combat the stupidity, carelessness, and indifference of the workers themselves. A campaign of education is necessary to overcome their ignorance, fatalism, or lack of interest in their own safety. Indeed safety, as well as efficiency, is largely a matter of habit. The safe practice and the improved method become natural only by continuous repetition.

The introduction of guards and other safety devices will not of themselves accomplish the desired result. The worker may ignore them and continue to work along the lines of least resistance. The illiteracy and lack of knowledge of English of many unskilled laborers make useless the posting of danger signs or precautionary measures printed in English. Pictures, however, are very effective, if every picture tells a story.

The tremendous toll of industrial accidents requires governmental action in addition to voluntary cooperation, for the profits motive, rather than the humanitarian ideal, determines the character of modern industry. Although private associations of socially minded employers have advanced the ideals of health and safety in industry, coercion has been necessary for many. It has just been indicated that workmen's compensation laws made industrial accidents costly to employers. The result was the introduction of safety devices and saner methods. Safety in industry now means lower financial, as well as human, costs of production. This is one argument in favor of social insurance, *viz.*, that it tends to reduce the risks of industry, as well as to compensate its victims or their families.

In addition to workmen's compensation laws, the state has been forced to pass various other laws for the protection of workers against the hazards of modern industry. But an adequate system of factory and store inspection is necessary for the enforcement of such legislation. However, standards of enforcement, like those of legislation, vary greatly

<sup>1</sup> *Report on Conditions of Employment in the Iron and Steel Industry by the Commissioner of Labor*, vol. 4, p. 11, 1913.



not only from industry to industry, but also from state to state. The Federal character of our government and its constitutional limitations make difficult national legislation and uniform standards of inspection, recording, and enforcement.

Provision should be made, not only for the prevention of industrial accidents, but also for surgical and medical care of those who fall victims to them, in spite of all possible precautions. For those workers who are permanently disabled, an educational program is necessary for their complete or partial rehabilitation. The purpose of such training is to make these injured soldiers of industry capable of self-support, and thus to prevent them from becoming public charges. In 1921, the Federal government passed the Smith-Hughes Act, which provided Federal subsidies for state boards of vocational education. A special function of these state boards is to provide vocational education, industrial training, and the general rehabilitation of victims of industrial accidents, as well as wounded veterans of the World War.

**6. Occupational Diseases.**—The risks of the worker include a liability not only to sudden industrial accidents, but also to subtle occupational diseases. Dangerous trades include not only those occupations which are hazardous to life and limb but also those which slowly but surely undermine the health of the worker. Such trades sometimes result in specific occupational diseases, but more often in impaired health or an undervitalized condition which makes their victims an easy prey to numerous ordinary diseases. The great number of such occupations is attested by a report of the Bureau of Labor Statistics which listed no less than seven hundred dangerous trades.<sup>1</sup>

The importance of occupational diseases and the general ignorance of the consuming public concerning the human costs of producing numerous commodities of everyday life are well brought out in the following word picture.

In order that the consumer may rest peacefully on an artistic brass bedstead, some brassfounder may have had to suffer those malaria-like attacks of chills and sweats which are caused by the inhalation of zinc fumes. The pleasure of our morning ablutions is hardly increased by reading Dr. Hamilton's report that 36 per cent of the enamelers and mill hands in ten sanitary-ware factories were found to be suffering from chronic lead poisoning. Breakfast is not more palatable if we realize that 1 out of every 12 men, and 1 out of every 7 women, in white-ware potteries, in the manufacture of art and utility ware, and in tile works are "leaded" every year because of the lead glaze used. To appreciate the real cost of some of our clothing and house furnishings we should visit a cotton mill or a woolen mill, experience the soreness of the lungs that comes from staying a brief time in the sorting and carding rooms, and enter the humid and superheated atmosphere of the spinning and weaving rooms. We should then be less

<sup>1</sup> Bureau of Labor Statistics, *Bulletin* 306.

surprised that the factory people, who have stayed in this environment from their childhood up, have such a pale, washed-out appearance, and that they are particularly subject to tuberculosis.

The manufacture of felt and derby hats is not only a very dusty trade, as it is still conducted in most factories, giving rise to a higher death rate from tuberculosis even than among textile workers, but several branches of it involve danger of poisoning from cyanide of mercury with which the fur is treated to increase its felting properties. The manufacture of rubber footwear, rubber clothing, and dipped goods involves contact with several dangerous poisons: lead, anilin, naphtha, carbon disulphide, carbon tetrachloride, and benzol. There are said to be forty-two different hazards in the tanning of leather to make shoes, gloves or anything else—a loathsome and often fatal germ disease called anthrax and many different chances of poisoning from chemicals.

The printing trade was one of the earliest products of modern invention, and has made wonderful progress with the introduction of the linotype and monotype in the last 30 years. The benefits which it has conferred on the human race are incalculable. It has been the chief lever for advancement in almost every direction. Yet it is an unhealthful occupation, because of the lead dust and vitiated air that have been characteristic of most printshops. Lead poisoning of a slow insidious variety lowers the vitality of the printer, and tuberculosis, in about half the cases, comes along to finish the job.<sup>1</sup>

**7. Common Sources of Danger.**—First among these dangerous trades are industries which deal with poisonous substances. The effects of these toxins may be relatively rapid or slow and of various degrees of severity. Lead poisoning, for illustration, is a common disease among workers employed in the manufacture of white lead, and in industries where it is commonly handled. The result may be paralysis, insanity, or death at an early age. Several European countries have reduced the mortality in these trades by forbidding such practices as dry rubbing and by insisting upon other precautionary measures. Various other dangerous poisons, such as arsenic, are sometimes used in the manufacture of dyes, paints, and colors. Workers with phosphorus, in the manufacture of matches, sometimes contract a deadly and characteristic disease known as "phossy jaw." This is one of the few dangerous trades against which our Federal government has legislated.

A second source of danger lies in exposure to an excessive amount of dust. The delicate membrane of the lungs becomes spotted with foreign particles and loses its power of resistance to tuberculosis and other respiratory diseases. Coal mining is a dangerous occupation for this reason, as well as because of its liability to accidents. Precautionary measures, such as screening the coal wet, will help to reduce the amount of dust in the air. An even more dangerous dust is that generated in metal grinding and where abrasives are used. Suction tubes and blowers should be utilized to draw vitiated air away from the workers. Where

<sup>1</sup> CATLIN, W. B., "The Labor Problem," pp. 105-107.

dangerous gases and poisonous fumes are produced, the work should be done under a hood which produces a forced draft. Management should install such devices and insist upon their use by the employees.

A third source of danger lies in sudden changes of temperature and air pressure. Steel workers and those employed near hot furnaces are easy victims of pneumonia during the winter months. Underground workers in mines and tunnels sometimes develop a peculiar and characteristic disease from changes in air pressure.

**8. Preventive and Remedial Measures.**—The reduction of occupational diseases, like the prevention of industrial accidents, calls for concerted action by employees, employers, and the general public. A campaign of education is necessary to overcome ignorance and indifference.

Governmental legislation is similarly necessary, but uniformity is difficult because of the differences in state laws. A dangerous trade may merely be driven by law from one state to another. The American Association for Labor Legislation and other bodies have struggled to advance standards of safety and health throughout the United States. Legislative action should sometimes take the form of abolition and sometimes that of the regulation of dangerous practices.

Although the victims of occupational diseases often were formerly excluded from the benefits of workmen's compensation laws, there has been a growing tendency to regard them in the same legal light as workers injured by industrial accidents. Victims of occupational diseases, as well as of dangerous trades, should not be thrown on the human scrap heap of industry or be forced to resort to charity. The injured veterans of industry should be cared for by a surgical and educational program of rehabilitation. They should be provided for also by a comprehensive program of social insurance.

**9. Economic Factors and the Death Rate.**—The safety-first movement has been paralleled by the public-health movement. Although a general social problem, its economic phases are of special importance and pertinence. There are numerous economic factors, in addition to industrial accidents and occupational diseases, which affect our national vitality, as measured by the death rate, by the degree of physical fitness of our population, and by the amount of general sickness. Moreover, the economic effects of permanent injury, lingering illness, and premature death are tremendous. The economic implications of human conservation, irrespective of its human and social gains, are even greater than those of the conservation of our natural resources.

A pioneer study by Robert Hunter testified to the existence of important economic factors in the death rates of different social classes. He estimated that the death rate even among the highest income group of wage earners was 50 per cent greater than among the well-to-do classes

of the population and that the death rate among the poorest class was probably not less than three and one half times as high as among the more fortunate.<sup>1</sup>

The experience of the Industrial department of the Metropolitan Life Insurance Company indicated that the mortality rate of occupied males for all ages above fifteen was considerably higher than that found in the registered areas of the United States as a whole; that in the critical period from thirty-five to forty-four years of age the death rate for men insured in this department was over 50 per cent higher than that of the general population; and that between these ages the death rate of the industrial workers from tuberculosis alone was over 100 per cent higher than in the population as a whole.<sup>2</sup>

**10. Economic Aspects of Sickness.**—General sickness, as well as premature death, is a cause of much human suffering and of tremendous economic waste.

Some years ago Professor Irving Fisher estimated that the average number of persons who were sick in the United States was about three million, of whom nearly one-third were within the working period of life. He contended that this represented an annual loss in wages alone of a half billion dollars. If the costs of medical attention were included, the total annual cost of sickness would approximate a round billion dollars a year.<sup>3</sup>

A more recent estimate of our national sickness bill by Professor Dublin is even greater. His study of a half million insured individuals indicated that about 2 per cent of our population is constantly sick, and that the average individual in the United States loses about seven days each year from sickness involving an inability to work. This means a loss of 2 per cent of current production, which in round numbers amounts to more than a billion and a quarter dollars annually. The total cost of the necessary medical care amounts to more than a billion dollars a year additional.<sup>4</sup>

**11. Uneven Distribution of Sickness.**—Sickness is not evenly diffused throughout our population but affects some groups far more than others. The financial incidence of sickness, like that of industrial accidents, often falls on those individuals and groups least able to bear it. This situation has been described as follows.

The principal part of the whole burden of sickness in any one year is borne by this unfortunate minority. Among forty-two million people engaged in gainful

<sup>1</sup> HUNTER, R., "Poverty," p. 144.

<sup>2</sup> DUBLIN, L. I., "Monthly Statistics of Insured Wage-earners and Their Families," pp. 23 and 52.

<sup>3</sup> FISHER, I., "National Vitality: Its Wastes and Conservation," pp. 741-742.

<sup>4</sup> DUBLIN, L. I., "Economics of World Health," *Harper's Magazine*, November, 1926.

employment about eight million four hundred thousand will have a disabling sickness lasting more than 7 days during the coming year. The other thirty-three or thirty-four million will escape practically entirely with the exception of minor disabilities. Of those that are sick 65 per cent will suffer disability for less than 30 days. The other 35 per cent numbering nearly three million will be disabled for more than 30 days. Three per cent of those who are sick, or about two hundred and fifty thousand will be sick for more than 6 months and fully one hundred and twenty thousand of them will be disabled for more than 1 year.<sup>1</sup>

**12. Physical Fitness of Our Population.**—The physical fitness of our population as a whole is far below its potential level and far behind modern standards of preventive and curative medicine. It may be that modern industrialism and urban congestion are important factors in its explanation. But, whatever its causes may be, the examination of men for military service during the World War revealed some alarming facts as to the lack of physical fitness of young adult males. According to a report of the provost general, only about 65 per cent of the men between the ages of twenty-one and thirty-one were found fully qualified for military service out of over three million men examined between December, 1917, and September, 1918. Within this limited time and for this group of men in the very prime of life, over a million were rejected for military service because of physical defects, many of which might have been removed by proper care and attention in the earlier years of life.

Later and more complete analyses of this great inventory of the physical fitness of the young men of our nation were far from reassuring. Conservative estimates are that at least 30 per cent of the total number of men examined under the Compulsory Service Act were classified as physically unfit. European experience was little better.

**13. Conservation of Human Life.**—The death rate of a society is an excellent barometer of the degree of civilization to which a group has attained. Thus the death rate of Western Europe and the United States is about one-half that of certain registered areas of India and far below that of most Asiatic countries where human life is as cheap as it is miserable.

It is a well-known fact that the average span of life has been lengthened, in spite of the increasing hazards of modern civilization and in spite of the dangers of modern methods of production. Thus the death rate of Western Europe and the United States today is only one-half that of medieval Europe, as revealed by the city records of Geneva for the opening decades of modern times. The death rate must have been even higher in earlier centuries and in less progressive communities than Geneva.

<sup>1</sup> LAPP, J. A., "Advantage of Insurance in Disability, Illness, and Old Age," American Association for Labor Legislation, *Review*, p. 182, June, 1928.

Within the past century and even within the past generation, in the United States the death rate has fallen to a considerable extent. "Babies born in 1900 could look forward to an average life of forty-nine years, while the prospect today is sixty years—a gain of eleven years."<sup>1</sup>

The gradual reduction in the death rate of our population as a whole has been accomplished chiefly by a lessening of infant mortality, the triumphs of modern surgery, and the conquest of contagious diseases by programs of sanitation, rather than by an increased resistance to the organic diseases of middle life. Although much has already been accomplished, far more could be done by an aroused public opinion seeking to apply the findings of modern hygiene. Improved working and living conditions have not kept pace with the discoveries of the healing arts and sciences. The fatal importance of subnormal standards of living and dangerous working conditions has been indicated. In spite of our remarkable record in advancing the average length of life, the death rate for the United States as a whole, and especially for certain backward communities, is higher than that in the most progressive countries of Europe.

**14. Conservation of Health.**—The public-health movement seeks to reduce mortality and morbidity rates. Like the safety-first movement, its aim is prevention, as well as cure. It should be fostered by both citizen and physician, employer and employee.

The extent, costs, and maldistribution of general sickness have been indicated. An analysis of specific diseases and their relative prevalence and fatality would go beyond the limits of this text. It is important, however, to distinguish between communicable, or germ, diseases and those which are degenerative and represent the breaking down or wearing out of some of the vital organs. It would seem that the life span has not been lengthened, but that more people are living more nearly to their natural limits. In other words, the chief gains have been achieved by the reduction of infant mortality and the conquest of contagious diseases, such as diphtheria, typhoid fever, and tuberculosis.

Much could be written of the triumphs of modern surgery, but that is a technical subject concerning which the layman is interested merely in results. On the other hand, preventive medicine, personal hygiene, and public sanitation are social problems concerning which general education is necessary. Only a negligible portion of our population undergoes periodic physical examinations in an effort to discover remedial defects and hidden danger signs before they become serious or chronic. Most of us seek the services of a physician merely when we are seriously ill.

<sup>1</sup> DUBLIN, L. I., statistician of the Metropolitan Life Insurance Company, as reported by the *New York Times*, June 10, 1934.

Perhaps an even more significant social problem is the fact that a large portion of our population, who are in dire need of medical, surgical, or dental attention do not secure competent professional services at all, or at least not in sufficient time or in sufficient degree. Again, that portion of our population in the lowest income groups comprises those who are most victimized by quack doctors and spurious or injurious patent medicines. The causes of such a situation are the common and related ones of ignorance, indifference, and poverty on the part of large groups of laborers and their families.

Organized society should not permit such a situation to continue. Sickness and premature death are even more serious than illiteracy. Consequently, the public-health movement is even more important than the public-education movement, significant as the latter is. Such a comparison again raises the question as to why education is more of a public duty than is the development of health. Why not public hospitals, as well as public schools? Of course, private hospitals would continue to exist and private physicians would continue to practice. Public schools have not eliminated private schools or private tutors.

Public hospitals would be open to all who needed medical, surgical, and dental treatment or who wished periodic physical examinations. Private hospitals would continue to serve their fee-paying clientele. At the present time, large hospitals are supported partially or wholly by public taxation, for they maintain free or low-cost wards and clinics. If socialized medicine has already come into existence, why not recognize it and organize it more effectively?

As sickness and premature death are common causes of individual and family dependency, the war against morbidity and mortality must be accompanied by the development of comprehensive and coordinated systems of insurance, social as well as individual, compulsory as well as voluntary, and public as well as private.

**15. Necessity of Social Insurance.**—Early economists, as well as conservative statesmen, held that workmen should provide for themselves against the various risks of industry. They stressed individual thrift and pointed to personal savings as the ultimate reserve in case of emergency. Moreover, the higher wages paid in dangerous trades, or those in which employment was less regular, were regarded as a natural compensation for the greater risks incurred by workers in these occupations.

It has been found, however, that many workmen are financially unable to make sufficient provision against the hazards of serious accident, protracted illness, long unemployment, or old age. Indeed, the risks of industry are often greatest among those groups which are the least able to bear them. The final result is often a resort to public or private charity for many families in cases of emergency.

Before the development of workmen's compensation laws and other forms of social insurance, the incidence of industrial accidents, occupational diseases, and other hazards of modern industry fell on the sick and injured workers themselves. In case of the death of the breadwinner, the entire financial burden fell on his dependent family. The fact that the laboring class is, for the most part, propertyless and that the workers have but a small reserve of savings on which they can fall back makes this situation still more serious. Those who need insurance the most frequently carry the least. It would seem that the lowest waged workers are peculiarly unable or reluctant to take out insurance policies on their own initiative. The necessity of workmen's compensation laws and other forms of social insurance is apparent.

Human conservation involves not only safety-first measures and improved working conditions for the protection of the health of the workers, but also adequate provision for the victims of industrial accidents, occupational diseases, superannuation, and, indeed, ordinary sickness and old age. Such provisions include financial compensation, medical and surgical care, and educational rehabilitation.

**16. Nature of Social Insurance.**—The very nature of insurance, especially if provided by mutual companies, is social. The fundamental principle of any form of insurance is the removal of the financial incidence of some great loss from the individuals subject to it and its diffusion over the entire group which is menaced by this hazard. In other words, insurance substitutes a small, certain, and steady payment for a large but uncertain financial loss.

It is possible by relatively small but regular contribution from all employed workers to pay some benefits to individual workers or to their families in times of distress. Thus some unions collect unemployment, sickness, and death dues from their members in order to pay these benefits to their affected members or their families when they are visited by these disasters. Numerous large corporations also have various contributory or non-contributory benefit programs for their workers.

The number of such private benefit programs is not sufficiently large. Again, their coverage is frequently inadequate. The great majority of workers remain unprotected against many of the most severe industrial hazards. Moreover, some of the private or fraternal programs of insurance are uncertain, for they are not on a sound actuarial basis. Although large and solvent insurance companies provide various types of industrial insurance, it has been indicated that most workers are unable or unwilling to purchase such policies.

Although insurance against numerous risks of industry is provided by private insurance companies, by some employers, by some labor unions, and by various fraternal organizations, social insurance represents an extension of the principle of insurance to almost all workers affected



by a particular industrial hazard. It implies not only the element of coercion, but also that of governmental regulation.

Although social insurance may be provided by private insurance companies, it must be extended to all workers and not merely to those who choose to insure themselves or to those workers whose employers see fit to insure their employees. Again, it must be regulated and supervised by the state, if not actually administered by a governmental bureau. Although social insurance frequently implies state funds and governmental subsidies, such need not necessarily be the case. The final test of a program of social insurance is the existence of adequate, standardized, certain, and cheap benefits to all individuals affected.

Because of the inability or reluctance of the workers to insure themselves against the various risks of industry, the state has been forced to intervene. Governmental action has been justified, not only for humanitarian reasons, but also because social insurance has been found to be more economic and more socially desirable than charity. Legislation has demanded that specific benefits shall be provided to workers under certain conditions. In some cases workers are compelled to bear a portion of the cost of such insurance by the payment of small premiums. In other cases, the payment of benefits is gratuitous.

The premiums of social insurance may come from the wages of employees, from the profits of the employer, from the public treasury, or from a combination of two or more of these sources. If the worker makes some contribution, the project may properly be termed "insurance." If it is provided freely by the state or by an individual employer, the project is a pension system rather than insurance.

**17. Types of Social Insurance.**—The varieties of social insurance are determined by the different kinds of industrial hazards. The most common types of social insurance are workmen's compensation for the victims of industrial accidents, health insurance for the sick, unemployment insurance for those out of work, and old-age pensions or insurance for the aged. Life insurance, annuities, and most other forms of insurance against general hazards of life are essentially social in character, although not ordinarily classified under the heading of social insurance.

Social-insurance projects may be classified also according to the degree to which they are paid for by the workers themselves. At one extreme are gratuitous pensions and at the other extreme contributory insurance. Social-insurance plans may be classified similarly, according to the extent to which they are subsidized by the state.

Social insurance may be classified also according to its type of administration. Thus there are private companies, state funds, and mutual associations of employers for the administration of workmen's compensation.

**18. Employers' Liability Laws.**—In both Great Britain and the United States before the advent of workmen's compensation laws, the

only redress open to an injured workman or his dependents was that under the common law or under existing statutes concerning the liability of employers.

The burden of proof was on the victim of an industrial accident, who was forced to bring suit in court against his employer. Litigation was uncertain, slow, and expensive. Lawyers known as "ambulance chasers" took promising cases, paid all legal expenses, and divided the damages with the injured worker on a "fifty-fifty" basis.

If the law was against the injured worker, he was left to shift for himself. In any event, it was difficult to establish a case under the former employers' liability laws. Moreover, there was little consistency in the awards of different courts for substantially similar cases. Verdicts and damages varied with the sentiments and sentimentalities of different judges and juries.

Under the common law and the former employers' liability statutes, the legal theory, as well as its administration, was decidedly against the victim of an industrial accident. The injured worker was forced to prove that his employer was solely and directly responsible for his injury. It was formerly held that the worker assumed the natural risks of an occupation when he accepted that dangerous employment. If an accident was a natural hazard of the industry, there was no legal redress for the injured worker.

If the accident was the result, in whole or even in part, of the carelessness of the worker himself, his contributory negligence relieved the employer of any responsibility. If the fault was that of another worker, the "fellow-servant" responsibility eliminated that of the employer. Foremen and even plant superintendents were frequently held by the courts to be fellow servants.

Direct or even contributory negligence on the part of the employer was difficult for the injured workman to prove. Damages could not be awarded in any case unless the employee could demonstrate that the employer had not exercised due care in the management of the plant.

**19. Principle of Compensation.**—The principle of workmen's compensation laws is very different. The insured workman is not forced to appeal to the courts or to bear the expense, the delay, and the uncertainty of litigation. Moreover, an attempt is made to standardize awards according to some graduated scale which takes into consideration both the seriousness of the injury and the former earning power of the injured worker. The question as to responsibility for the accident does not enter. It is assumed that the employee will not deliberately injure himself in order to collect damages.

Compensation for the victims of industrial accidents is now regarded as a cost of production, which the employer must assume or pass on to society in the form of higher prices. The insurance premiums which an

employer is forced to pay reflect the relative hazards of that occupation. A reduction of his dangers of employment will be reflected in lower insurance rates. Hence it has been found that the passage of workmen's compensation laws throughout the United States and elsewhere has given a tremendously effective incentive to the safety-first movement in industry. Industrial accidents have been made expensive to employers and consumers.

The consuming public, as well as the employer, is forced to accept the financial responsibility of industrial accidents and occupational diseases. The employer comes to regard his insurance premiums in the same light as other expenses of production which he seeks to pass on to the consumer in the form of increased prices. Thus the passage of workmen's compensation laws has made the costs, and therefore the prices, of the products of dangerous trades higher than those of relatively safe occupations. Such a situation is as it should be. If property insurance premiums are regarded as legitimate expenses of production, why should not social insurance make the products of dangerous trades more expensive? The consumer of these products should be forced to pay for the human risks involved in their production, whether or not he knows of their existence. Again, the higher prices of the products of dangerous trades will tend to reduce their consumption, whenever this is possible, in favor of the products of safer occupations.

Social insurance in any form is merely the application of the basic principle of property insurance to the human risks of industry. Thus workmen's compensation laws cannot compensate an individual for the loss of an arm or a leg, except merely in the sense that they may reimburse him for the loss of earning power which the industrial accident entails. The worker himself bears the human suffering and sorrow, but he is compensated financially by passing on to society the monetary losses represented by the industrial accident or the occupational disease.

**20. Industrial Accident Insurance in Europe.**—Social insurance first appeared in the form of compulsory compensation for the victims of industrial accidents and occupational diseases. Germany was the pioneer nation in the general field of social insurance. Over a decade before the close of the past century the German government had provided both industrial accident and sickness insurance for the majority of its workers. Social insurance was Bismarck's great weapon against poverty, on the one hand, and against socialism, on the other hand.

The German law of 1884 required employers to become members of mutual accident insurance associations which were to be under the supervision of the Imperial Insurance Office. These associations of employers levied assessments on their members for this purpose. Compensation, according to a fixed schedule, was paid out of this common fund to the victims of industrial accidents or to their dependents in

case of death. Hence these associations of employers strove to reduce their industrial hazards. The payment of accident benefits did not begin until the employee was absent thirteen weeks from his work. During this period, he was paid out of the compulsory sickness insurance fund. The latter was composed of premiums paid by both employers and employees, and not merely by employers, as in the case of the industrial accident insurance fund. Hence the initial burden on the employers was lightened. The German law provided for the medical and surgical treatment of the victims of industrial accidents, as well as for financial compensation.

Industrial accident insurance was inaugurated in Norway ten years later. Instead of providing for mutual associations of employers under the regulation of the government, as in Germany, Norway created a state insurance fund. Employers were required by the government to pay into this fund premiums in varying amounts, determined by the total wages of the employees and the degree of hazard of the industry. The state itself paid compensation out of this state fund according to a standardized schedule of rates to the victims of industrial accidents.

Great Britain developed a third system of administration in its Workmen's Compensation Act of 1897. The law prescribed a fixed schedule of benefits for the various types of injuries which resulted from industrial accidents. It required that the employer pay that scheduled amount to the injured worker or to his dependents. The employer might join an Employers' Liability Insurance Company and generally did so, but there was no compulsion in the matter.

The danger of this voluntary system is that an employer may fail to insure himself against the risk and, while uninsured, may become bankrupt. In such a case the recipient of compensation becomes merely one of his creditors. On the other hand, this voluntary system of insurance has the alleged advantage of possessing a minimum of governmental interference with the employer.

Workmen's compensation laws may be administered by a mutual association of employers under governmental supervision, as in Germany; directly by the government through state funds, as in Norway; or by the individual employer under governmental supervision, as in Great Britain. It will be noted, however, that in spite of these differences in method of administration in these three countries, there is a fixed scale of compensation, payment in accordance with which to the injured worker is made compulsory by law.

**21. Workmen's Compensation Laws in the United States.**—Workmen's compensation laws represent one form of social insurance which is now common throughout the United States. Although almost universal today, it developed later here than in Europe. Uniformity is still

lacking, however, because this legislation falls within the province of the individual states.

Early workmen's compensation laws were held to be unconstitutional. Although there had been earlier laws in both Maryland and Montana, the first important workmen's compensation law was passed in 1910 in New York. Like its predecessors, it was declared unconstitutional, for it was held by the courts to represent the taking of property without due process of law. But an amendment to the state constitution of New York was finally adopted and another compensation law was passed in 1914.

Meanwhile, the state of Washington had passed in 1911 a workmen's compensation law similar to the Norwegian plan. Although contested in the courts, the legal verdict in the state of Washington was favorable and the law was held to be constitutional. The Supreme Court of the United States finally held that workmen's compensation laws passed by individual states were not violations of the Fourteenth Amendment of the Federal Constitution.

In the decade between 1910 and 1920, almost all the states of the Union passed workmen's compensation laws. At present (1935) only several states have no such legislation. All of them are in the South and none is industrialized to any degree.

There is still no Federal law on this subject for the entire United States, for such a national law would probably require an amendment to the Constitution. However, there are Federal compensation laws for the employees of the national government and for workers engaged in interstate commerce. In 1928, a Federal compensation law was passed for the District of Columbia.

The British Workmen's Compensation Law has been the model for many American commonwealths. One danger of this form of administration has been indicated. It is further contended by some critics that the state fund system is cheaper and more reliable than direct payment by the employer with optional insurance on his part in private companies. For large industrial states, the mutual association of employers under government regulation has certain advantages.

Not only the form of administration but also the inclusiveness and scale of payments of workmen's compensation laws vary greatly from state to state. Domestic and farm laborers are generally excluded. In some cases victims of occupational diseases are not permitted to share the benefits of workmen's compensation laws. In the absence of uniform legislation the upward standardization of benefits paid by various state compensation laws would be helpful.

Rates are generally based on the wages of the worker, and the percentages paid as benefits vary with the seriousness of the injury. Most states have fixed maximums of from \$10 to \$20 a week. In many states

there is a further time limit during which such benefits may be paid, at the expiration of which period the totally disabled worker is denied further financial aid.

Workmen's compensation laws represent a distinct advance over employers' liability laws. This form of social insurance has now established itself in the United States. It is still necessary, however, to secure such legislation in several of our states,<sup>1</sup> as well as to raise standards generally to certain uniform levels. Numerous excluded groups should be included, such as the victims of occupational diseases. In many states the scale of benefits should be raised and the waiting period shortened.

The American Association for Labor Legislation has striven not only to reduce the hazards of industry but also to standardize and to raise the general level of state workmen's compensation laws.<sup>2</sup>

**22. Sickness Insurance.**—Germany began its national system of compulsory sickness insurance with the law of 1883. Employers were forced to purchase insurance stamps equivalent to the necessary premiums and to see that they were regularly attached to the cards which all insured workers carried. Employers paid one-third of the cost of these stamps and deducted the other two-thirds from the worker's wages. The administration of sickness insurance was placed in the hands of sick-benefit associations, composed of employers, employees, and public-spirited citizens, under the supervision of the Imperial Insurance Office. The benefits of the German program of health insurance were both medical and financial. They included free surgical attendance, admission to a hospital when necessary, free medicines, and such appliances as spectacles and artificial limbs. After the third day of sickness, half wages were paid which were continued during the period of absence from work, but not beyond a maximum of twenty-six weeks. Funeral and maternity benefits, as well as pensions for widows and orphans, were included therein. German statistics showed an increased amount of illness with the application of sickness insurance. On the other hand, there was a decided decrease in the death rate and in the amount of pauperism. So successful was this German system of sickness insurance that, even before the World War, over two-thirds of all individuals gainfully employed were included therein.

The successful experience of Germany induced Great Britain to utilize the weapon of sickness insurance in her war against poverty. The Workmen's Compensation Act of 1897 was followed by the National Insurance Act of 1911. Sickness insurance, as well as unemployment insurance, was added thereby to the existing industrial accident insurance. Under the National Insurance Act of 1911, 14,000,000 British wage

<sup>1</sup> Arkansas, Florida, Mississippi, South Carolina, Jan. 1, 1935.

<sup>2</sup> *American Labor Legislation Review*, January, 1924 (see model bill).

earners were required to be insured against illness. The premiums were paid jointly by employers and employees, and the state added a subsidy. The responsibility for the enforcement of the law rested on the employers, who were required to see that their workers possessed sickness-insurance cards and that the proper stamps were regularly affixed. The benefits of the British system of sickness insurance resembled those of Germany, for it included both medical attention and financial assistance. Flat sums were specified as premiums and benefits in the British law, as contrasted to certain percentages of the wages in Germany. Hence it has been necessary for the British Parliament frequently to amend the original act and to increase these amounts as the general price level rose. Important modifications and an extension of the system of sickness insurance were made in 1920. Thereafter, for illustration, an insured male worker, certified by a physician as incapable of employment because of ill health, received 15 shillings a week after an initial waiting period of three days. After twenty-six weeks of illness, this weekly benefit was reduced to one-half, but it was continued until the worker was able to resume his employment. The British system of sickness insurance is administered by a number of approved non-profit-making societies under the supervision of the Ministry of Health. The worker may choose a commercial company, a trade union, or a friendly benefit society for the purpose of sickness insurance.

Even before the outbreak of the World War, sickness insurance had been introduced into several other European countries, although in some of them it was restricted to a few occupations. During the war and in the years of reconstruction which followed it, sickness insurance was introduced into many other countries and extended more widely in those countries which had already introduced it. At the present time, sickness insurance exists in most European countries, as well as in Japan and South America.

Although sickness insurance has passed the experimental stage in Europe, it has not found popular support in the United States. In spite of the enormous social and economic burden of illness, this form of social insurance has not made much headway here. Although the present outlook is not very promising, the future development of the public-health movement in this country may be accompanied by compulsory sickness insurance. Public opinion is forming on the subject, but it has not yet crystallized into law.

Sporadic efforts at this type of legislation have been attempted in the United States, but they have been viewed as paternalistic. Compulsory sickness insurance, accompanied by free or low-cost clinics and hospitalization, has been regarded as a dangerous step toward socialized medicine, which has been feared by individual practitioners in this country. Again, sickness-insurance laws have been opposed as difficult

of administration and as easy of abuse. Some feigning of sickness or malingering takes place in spite of the necessary certification by a medical officer.

The advocates of sickness insurance point out in reply that sick benefits are decidedly less than the wages received, and that there is an initial exemption period of several days. The purpose of the latter is to lighten the administrative problem by the elimination of minor ailments and very short absences from the scheme of sickness insurance.

**23. Superannuation.**—Superannuation may be defined as the condition of being too old for employment. The superannuated are those who are prematurely aged or those who are incapacitated for further work without a specific disability. Superannuation may be regarded as the final outcome of chronic fatigue due to the speed and strain of modern industry, rather than as a result of an industrial accident or a definite occupational disease. Indeed, the victims of superannuation, like those suffering from some incurable defect or occupational disease, have sometimes been referred to as the "living dead."

The prevalence of superannuation, rather than human conservation, is due in large part to the strenuous character of modern industry and to the persistence of excessive hours of work. Studies of factory workers in numerous large plants have testified to the youthfulness of the employees. In many cases, the average age of industrial workers was found to be only about thirty. Although grey hair seems to be common and valuable in the professions, youth is insisted on for the laborers in modern manufacturing and mercantile establishments.

Why are the years of industrial productivity so few, and why is the number of mature men in industry disproportionately small? Why are old men relatively fewer in American factories than in those of Europe? Moreover, how are they displaced and what happens to them after they have given so strenuously of the best years of their lives to industry? Such are some problems of superannuation, which, like industrial accidents, occupational diseases, excessive sickness, and premature death, represent the antitheses of human conservation.

The average age of our population is increasing, owing to the reduction of infant mortality and the conquest of disease. Consequently, the proportion of those of middle age in our population is increasing. If this older group is to be retained in industry, it is necessary that some provision be made for them. In an individualistic economy, a worker could taper off his activities as his years increased and as his strength decreased. But under our factory system of production, such a tapering off process is impossible or difficult. The employee is forced to maintain his schedule or quit. The immediate result is increased strain and accelerated superannuation; the final result is death or chronic unemployment.



If industry has no place for the aged or superannuated employee, it must provide an adequate program of old-age pensions or contributory insurance. At present, the worker is confronted with the possibility of a dependent old age, as well as the risks of accident and illness. Instead of the comforts and independence which should surround the closing years of life, the aged employee is faced with the prospect of institutional custody and reliance on public or private charity.

**24. Old-age Pensions Compared with Sickness Insurance.**—The relative necessity and justice of old-age pensions as compared with sickness insurance are difficult questions. The number of individuals affected by the former is undoubtedly less than the number affected by the latter. Again, there is perhaps less chance of abuse in the case of old-age insurance than with health insurance. The administrative difficulty is just as great, however, unless a system of gratuitous pensions is adopted. Such a plan, however, is said by its critics to discourage thrift on the part of the individual worker. On the other hand, old-age pensions are preferable to charitable relief from the view-point of both society and the individual recipient.

**25. Governmental Provision for the Aged in European Countries.**—Compulsory old-age insurance was unknown until Germany again took the lead in this form of social insurance in 1889. Employers were required to see that every employee sixteen years of age or over had an old-age card and that stamps covering the required premiums were regularly affixed thereto. The employer bought these stamps from the government and then gave the employee his stamp each week, paying half the cost himself and taking the other half from the employee's wages. The premiums were small, and the annuities correspondingly meager. Consequently, the government added a subsidy.

Inasmuch as the worker paid a portion of the premium, the German system represented old-age insurance rather than old-age pensions. But Denmark, in 1891, met the same problem by a national system of gratuitous old-age pensions. Great Britain also adopted the latter scheme after considerable study. Under the British Old-age Pension Law of 1908, every wage earner of seventy years of age or over, who had lived in the kingdom for the previous twenty years, whose total yearly income from other sources did not exceed £31 10s., and who had been an industrious worker, might receive an old-age pension from the state. This varied from 1 to 5 s. a week. The British Old-age Pension Act of 1908 was amended in 1911 and 1919 in the interests of greater coverage and increased benefits. Invalidity, as well as old age, was provided for. But the additional burden of providing increased public subsidies for its huge unemployment-insurance scheme proved too great for the public treasury. In 1925, Great Britain definitely turned from old-age pensions to compulsory old-age insurance.

Even before the World War, many other European countries had advanced far along the road toward old-age pensions or insurance. Some had met this problem by a system of state subsidies to voluntary and cooperative societies organized to meet this social burden. After the war, most of the remaining countries provided old-age and invalidity protection. It is interesting to note, however, that most of these post-war laws have provided compulsory and contributory old-age insurance, rather than a system of gratuitous pensions.

**26. Old-age Pensions in America.**—Old-age pensions or contributory retirement funds are very common in the United States, but they are generally administered by private concerns for their own employees. The national government has compulsory old-age insurance for its employees. The same is true of teachers and other employees of most states. There is, however, no national system of old-age pensions or insurance which applies universally to all workers.

The Massachusetts Commission on Old-age Pensions in 1907 reported against the adoption of such legislation. The first law on the subject, passed by Arizona in 1914, was so carelessly drawn that it was declared unconstitutional. The Pennsylvania law of 1923, which was modeled after the British old-age pension law, was held by the courts of that state to be a violation of a provision of its state constitution which forbade the giving of gratuitous pensions to any individuals except those who had rendered military service.

In the following decade, however, American progress toward old-age pension laws was as rapid as it had been slow in the previous decade. By January 1, 1933, seventeen states<sup>1</sup> and Alaska had passed acts which provided financial assistance for the needy aged who were citizens of good character and residents of long standing. These laws followed the general outline of the standard bill drawn up by the American Association for Labor Legislation. It provided that a citizen of seventy years of age or more, who has resided continuously for fifteen years within that state, if the value of the applicant's property did not exceed \$3,000, should be entitled to a pension which, when added to other income, should not exceed a total of \$1 a day.

**27. Invalidity Insurance.**—Invalidity insurance is a payment of benefits to those who are incapacitated for work by reason of some physical infirmity other than that of old age. Thus the loss of sight or hearing may prevent an individual from remaining self-supporting. Such invalidity may not be the result of an industrial accident. Hence it would not come under the provisions of workmen's compensation laws.

<sup>1</sup> Alaska, 1915; Montana and Nevada, 1923; Wisconsin, 1925; Kentucky, 1926; Colorado and Maryland, 1927; California, Minnesota, Utah, and Wyoming, 1929; Massachusetts and New York, 1930; Delaware, Idaho, New Hampshire, New Jersey, and West Virginia, 1931.

Again, the disability may extend far beyond the time limits of sickness insurance. Invalidity insurance represents the further extension of the principle of compensation, which developed first for the victims of industrial accidents.

In order to avoid the baneful effects of charity, the state might well pension such unfortunate members of society in proportion to their loss of earning capacity. Thus the number of occupations open to the blind is necessarily small and their possible earnings are very meager. Hence certain communities have provided that the blind, who are attempting to earn a living and who are not recipients of charity or of workmen's compensation, shall receive a stipend from the public treasury.

Invalidity, like old age, is a general hazard faced by all individuals. Hence invalidity and old-age insurance have been often combined in laws providing assistance to needy individuals incapacitated for either or both these reasons.

**28. Mothers' Pensions.**—Mothers' pensions are gratuitous payments by the state to needy widows forced to care for families. In general, such pensions are very small in amount and are restricted to those who have no other means of support. Their aims are the substitution of a pension system for charity, the lowering of infant mortality, and the prevention of young children from growing up under conditions of pauperism.

This is one form of social insurance in which the United States has taken the lead. At present, about forty states have enacted some kind of mothers' pension law. Mothers' pension laws are in operation also in several European countries and in New Zealand.

**29. Voluntary and Private Pension Systems.**—One of the earliest and most common forms of adjustment (not compensation) on individual initiative was to place the injured or aged employee in an easy or sedentary position. Thus the railroads employed their crippled or aged workmen as flag men at grade crossings, as watchmen about their yards and warehouses, and as ticket takers at subway stations. But the number of such positions is limited, and the advisability of such a policy is questionable on many grounds. At best, it represents only a step toward a comprehensive and adequate pension system.

One of the first important private pension systems was that established by the Baltimore and Ohio Railway, in 1884. Since that time, a number of other railroads and public-utility companies have adopted somewhat similar plans. The movement spread to many large industrial, mercantile, and financial companies. Among the best known pension plans are those of the Pennsylvania Railroad, the Standard Oil Company, the United States Steel Corporation, and the Colorado Fuel and Iron Company.

Some so-called "pension systems" require a small but systematic contribution from employees. For the most part, however, they are

gratuitous or non-contributory. Enforced retirement is commonly between sixty and seventy years of age. A prior record of fairly continuous and satisfactory service is generally required. This varies in the different plans from ten to thirty years. The amount of the pension is generally a certain portion of the wage received at the time of retirement. Although usually small in amount, sometimes it is in excess of that granted by states which have old-age pension laws.

The purposes of the pension systems of large industrial concerns are no doubt humanitarian, but they are also economic in character. Pension systems make for efficiency, stability, and loyalty among the employees. The aged and inefficient worker is removed from an industrial organization in which speed and accuracy are of vital importance.

Pension plans also reduce labor turnover. If workers leave and later return, they are frequently granted claims on the pension system based only on the date of reentry into the service of the company. Again, the likelihood of a strike is reduced, for participation therein generally involves a loss of pension benefits. Indeed, pensioned employees may be used as a kind of labor reserve for emergencies. It has even been suggested that they be used as strike breakers.

Some excellent pension systems have been developed where wages were low and working conditions were far from satisfactory. Indeed, some of the most widely advertised pension plans have been those of industrial organizations which have been hostile to organized labor and which maintained the open shop or the company union.

Even if we assume that private pension plans are inspired by the best of motives and that they are operated on broad humanitarian principles, rather than for selfish reasons, private pension plans must be indicted on the grounds of their inadequacy. In spite of the existence of numerous splendid private insurance plans, most of them are not sufficiently inclusive. Many workers are employed by concerns which have no pension systems. Thus it was estimated in 1925 that not more than 2.5 per cent of the industrial workers of the United States came under pension systems.<sup>1</sup> Moreover, the age of retirement is often so advanced, and the length of continuous service which is demanded is so great, that only a small portion of this little group will ever be able to participate in the benefits of these plans. A broad program of social insurance seems to be the only answer to the problems of compensation for the aged veterans of industry, as well as for the victims of industrial accidents and occupational diseases.

**30. Summary.**—Industrial accidents and occupational diseases represent another serious form of human waste in industry. The unregulated employment of individuals at dangerous trades is an important social

<sup>1</sup> EPSTEIN, A., Paper before the American Association for Labor Legislation, December, 1925.

maladjustment. The national vitality is impaired also by the wide prevalence of general sickness and physical defects. Their economic losses, as well as their individual costs, create a serious problem of human conservation in industry. Moreover, the chief incidence of high mortality and morbidity rates fall on those economic classes least able to bear them.

The safety-first and health movements in industry seek to reduce human wastes to an irreducible minimum. The cooperation of the employee, the employer, and the state is necessary for the realization of this ideal. Remedial, as well as preventive, measures are necessary.

Provisions must be made for the victims of modern industry. These include (1) medical and surgical care, (2) educational or rehabilitation work, in order that the injured worker may become economically independent as far as possible, and (3) financial assistance in the form of social insurance.

The common generalization that the enterpriser assumes the risks of industry is not entirely true. Although he assumes important financial risks for the capital invested, which may justify the existence of profits, the worker bears many of the so-called "human" risks of industry. Previous chapters have indicated that there is no guarantee to labor of a living wage, and the following chapter will discuss the problem of economic insecurity and unemployment. In addition to the constant menace of occupational accident or sickness, there is also the hovering spectre of a dependent old age.

For the financial compensation of those individuals who are the victims of the hazards of modern economic organization, social insurance has been developed. This is an application of the principles of insurance to the human risks of industry, the financial incidence of which is diffused throughout society in general. Although often voluntarily undertaken by private corporations and by trade unions, social insurance implies the element of compulsion, general application, and governmental supervision. State subsidy is justified because of the reduction in the number of appeals to public and private charity.

Workmen's compensation laws provide for a remuneration to the victims of industrial accidents in proportion to their loss of earning power. They are a distinct advance over the older employers' liability acts, because the employee is no longer obliged to bring suit, or to prove the direct responsibility of the employer.

Germany was the pioneer nation in health insurance. Although compulsory sickness insurance has developed in Europe on a wide scale, it is almost unknown in America.

Dependent old age may be avoided either by old-age pensions, as in Great Britain, or by old-age insurance as in Germany. Neither plan made much progress in the United States until the past few years, during which period many American states passed old-age pension laws.

Perhaps the most debatable type of social insurance is that of unemployment insurance. This will be discussed in the following chapter.

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### Questions for Discussion

1. Show the present significance of the problem of industrial accidents in the United States.
2. What are some typical dangerous trades and why?
3. Outline some of the chief sources of danger in industry.
4. Show the significance of the problem of national sickness.
5. Compare workmen's compensation laws with employers' liability acts.
6. Define social insurance. What are its essentials?
7. Make out a case in favor of compulsory health insurance in the United States. Point out the objections.
8. Show the different methods of administering workmen's compensation.
9. Compare old-age insurance with old-age pensions.
10. Compare the necessity and dangers of sickness insurance with those of old-age insurance.
11. Show the adequacy or inadequacy of private pensions.
12. Why is insurance essentially social in character?

**Topics for Investigation**

1. Reduction of mine accidents.
2. Rehabilitation of industrial cripples.
3. Federal government and railroad accidents.
4. Merits and defects of the workmen's compensation law of your state.
5. Safety of mines in Europe and the United States.
6. Germany, the pioneer in social insurance.
7. Mothers' pensions in the United States.
8. State funds in the United States for the administration of workmen's compensation laws.
9. The standard workmen's compensation bill advocated by the American Association for Labor Legislation.
10. Progress of old-age pensions in the United States.



## CHAPTER X

### THE PROBLEM OF UNEMPLOYMENT

#### THE QUEST FOR ECONOMIC SECURITY CONTINUED

**1. Nature of Unemployment.**—Unemployment may be defined as idleness on the part of the worker which is not due to his own physical, mental, or moral incapacity.

It is important at the very outset that a distinction be drawn between the unemployed and the unemployable. The latter is a problem of sociology, but the former is one of economics. The unemployed, as contrasted with the unemployable members of society, are those workers who are capable and desirous of employment, but who are unable to secure work because of some maladjustment in the economic order over which they have little or no control. The unemployed are potential economic producers who belong neither in the leisure class nor in the social debtor groups of defectives, delinquents, or dependents.

Unemployment is enforced idleness, due to some friction in our modern, complex, industrial organization. A vacation, on the other hand, is a voluntary cessation of work for the purpose of mental or physical recreation.

Irregular employment and underemployment are special phases of unemployment. Irregular employment is represented by intermittent employment or the lack of steady work. Underemployment is an irregularity of employment to the extent that the worker is unable to earn wages sufficient to maintain a minimum standard of living. Irregularly employed workers are often underemployed, because their wages frequently are not large enough to maintain decent standards of living even with regular employment.

Although the unemployed must be distinguished from the unemployable, there is a tendency of unemployed or irregularly employed workers to drift into the ranks of the unemployable, as steady habits of thrift and industry are gradually broken down. Thus the unemployed worker may be reduced to the level of poverty, or, if he becomes a recipient of charity, to the level of pauperism.

**2. Types of Unemployment.**—Although it is impossible to classify unemployment into various categories, several general types may be suggested. These have been referred to as casual, seasonal, cyclical, and secular or technological unemployment. Although related to each other and frequently combined, the problem of unemployment is somewhat different in each case.

Casual unemployment represents the day-to-day, and even the hour-to-hour, fluctuations in the amount of employment. It is well illustrated by the continually fluctuating demands for the employment of dock hands and longshoremen. These casual laborers are busy when several ships are in port, but idle until another boat arrives. Casual unemployment is peculiarly acute among unskilled workers in those industries which have built up large labor reserves. The irregularly employed workers about the gates of a factory illustrate this type of unemployment.

Casual unemployment results from a faulty organization of the labor market which occurs in some of the skilled and semiskilled occupations, as well as among unskilled laborers. For illustration, numerous coal mines do not operate continuously, but only two, three, or four days a week. This unemployment is in part seasonal, but chiefly casual.

The industry's failure to provide regular employment is well known; in the 10 years from 1910 to 1921 the working time of the miners averaged only 214 days a year.<sup>1</sup>

Seasonal unemployment is a month-to-month or quarter-to-quarter variation in the amount of unemployment. It may be due to the seasonal character of production, as, for illustration, in agriculture, lumbering, and constructive work, or to the seasonal character of demand, as, for illustration, in the production of clothing and millinery. Seasonal unemployment, accompanied by overtime in busy seasons, is due to the variations in the weather which cause seasonal increases and decreases in the consumption and production of various goods.

Cyclical unemployment is caused by recurrent variations in employment due to the alternating periods of prosperity and depression, representing different phases of the business cycle. Cyclical unemployment seems to recur at intervals of several years, or even a decade, apart. The existence of business cycles with their fearful periods of depression and unemployment constitutes a serious challenge to modern capitalism. Cyclical unemployment, as well as casual and seasonal unemployment, is indicative of the planlessness of our present industrial organization.

The minor business depression of 1921 and the major business depression of 1929 to 1933 afford the two most recent illustrations of cyclical unemployment. During 1921, the number of unemployed reached five or six millions, and in 1932 and 1933 more than double that amount, as will be seen in Sec. 5 of this chapter.

In addition to seasonal fluctuations and cyclical variations, there is a long-run tendency which is known as the secular trend. It would seem that during the present decade there has been a secular trend toward decreased employment, or rather toward greater irregularity of employ-

<sup>1</sup> HAMILTON, W. H., "Problem of Bituminous Coal," *American Labor Legislation Review*, p. 221, September, 1926.

ment and an increased total amount of unemployment. This recent secular trend of unemployment has been termed "technological" unemployment, for it has been due to the rapid invention of new machinery and to the constant introduction of new industrial processes.

The early industrial revolution in England was accompanied by a serious and protracted condition of unemployment among numerous groups of craftsmen. The new industrial revolution in the United States, discussed in Chap. IV, presented an analogous situation, as will be seen in Sec. 4 of this chapter. Although industrial productivity increased by leaps and bounds, owing to the increased mechanization of production, these technological changes have created a serious problem of unemployment to numerous groups of workers.

**3. Amount of Unemployment.**—It is only recently that the amount of unemployment has been studied in a scientific manner. The former aim was only to provide means of temporary relief, rather than to analyze the causes of this economic problem. Of recent years, however, a number of excellent studies have been made by various public and private agencies of the amount, the causes, and the effects of unemployment, as well as of numerous remedial measures which have been proposed from time to time.

Because of the great variations in the volume of unemployment among different occupations, industries, seasons, and phases of the business cycle, it is difficult to make any general estimate as to the average amount of unemployment. The average number of unemployed or the average rate of unemployment is as meaningless a statistical abstraction as the average wage or the length of the average working day or week.

It is generally conceded that unemployment, especially casual unemployment, is greater in unskilled than in skilled occupations. Again, the problem is more acute in the winter than in the summer months, when agriculture "takes in a certain amount of the slack." Unemployment also displays itself more intensively in the city than in the country, for the problem is perhaps more industrial than agricultural. There is a general tendency of unemployed or migratory labor to flock to our cities during the winter months and then to flow out again into the country during the spring and summer. In the meantime, urban demands on charity are taxed to the utmost.

A review of various American estimates of unemployment gave rise to the summary that an average of at least 1,500,000 industrial wage earners in the United States are continually unemployed, taking poor and prosperous years together, and that the average worker loses about 10 per cent of his working time through unemployment alone.<sup>1</sup>

In Beveridge's classic study of unemployment is the conclusion that, although the volume of unemployment increases greatly during periods of

<sup>1</sup> BRADFORD, E. S., "Industrial Unemployment," U. S. Bureau of Labor Statistics, *Bulletin* 310, p. 2.

economic depression and decreases in periods of prosperity, there is a continuous but varying amount of unemployment throughout all phases of the business cycle. Other studies of the problem of unemployment indicate that it is a chronic, as well as an acute, problem.

In spite of popular opinion to the contrary, a period of prosperity does not entirely eliminate unemployment, even though it does reduce its amount. Thus the Committee on Waste of the Federated Engineering Societies found that a million men were out of work during the so-called

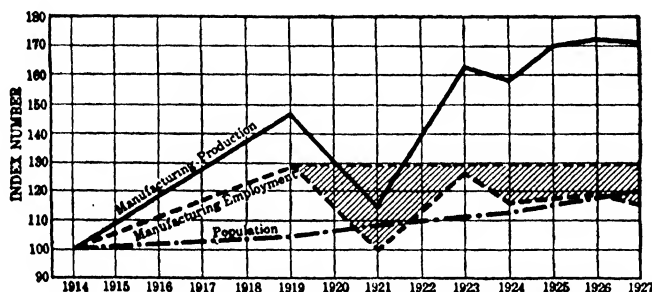


CHART 37.—Manufacturing production, manufacturing employment and growth of population (1914 to 1927) (Base—level of 1914 = 100 per cent.) (From an article in the *New York Times* entitled "Work of the Machines Makes Idle Hands" by Evans Clark. Reproduced from *American Labor Legislation Review*, p. 67, March, 1928.)

Shaded area indicates group employed in 1919, for whom there has since been no employment.

"war-time prosperity" of 1917 and 1918, when it was commonly supposed that every man could easily get a job if he were so disposed.

In 1927 and 1928, years of comparative prosperity, the problem of unemployment was serious. The Labor Bureau, Inc., estimated, in 1928, that four million workers were out of employment. The U. S. Bureau of Labor Statistics had shortly before contended that for the country at large, in 1927, employment in manufacturing dropped to a point lower than for any year since 1914 except that of 1921, which, as just indicated, was a year of great business depression. The American Federation of Labor officials reported in February, 1928, that the average unemployment in twenty-three leading industrial cities of the United States was over one-sixth of the total number of workers represented by their unions.<sup>1</sup>

**4. Technological Unemployment in Industry.**—Quantitative studies indicate that employment did not keep pace with industrial productivity during the new industrial revolution in the United States. Even before the great depression of 1929 to 1933, there was unmistakable evidence of a secular trend toward increasing technological unemployment.

Chart 37 traces the relative trends of manufacturing production, manufacturing employment, and population from 1914 to 1927. It pictures both cyclical and secular trends from the outbreak of the World

<sup>1</sup> *American Labor Legislation Review*, p. 65, March, 1928; and p. 150, June, 1928.

War through the postwar industrial revolution and almost down to the recent depression. During the period from 1914 to 1919, indices of both production and employment rose, but the former more rapidly than the latter. After a parallel cyclical decline in both indices from 1919 to 1921, there was another rise in both from 1921 to 1923, but again manufacturing production rose more rapidly than manufacturing employment. In the decline of both indices from 1923 to 1924, employment fell more than production; whereas in the rise of both indices in the following year, production leaped while employment increased only moderately. Between 1925 and 1927, the spread between the two indices was widened still farther.

The Federal Reserve Bulletin provides indices of industrial production and factory employment for each postwar year. They are given in the following table.

INDUSTRIAL PRODUCTION AND FACTORY EMPLOYMENT  
(1919 to 1934) (Base 100 per cent = average 1923 to 1925)

Industrial production	Year	Factory employment
83	1919	107
87	1920	108
67	1921	82
85	1922	91
101	1923	104
95	1924	97
104	1925	99
108	1926	101
106	1927	99
111	1928	99
119	1929	105
96	1930	92
81	1931	77
64	1932	64
76	1933	69
82	1934 (first 8 mo.)	79

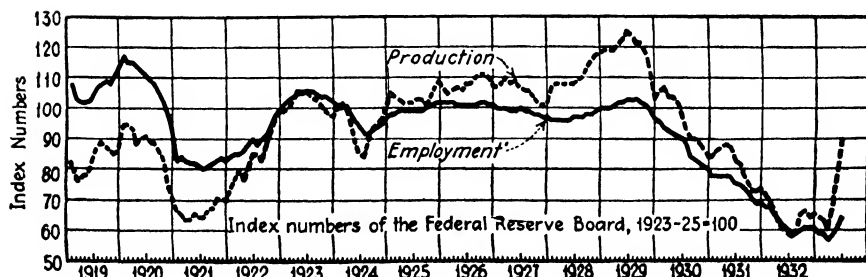


CHART 38.—Industrial production and factory employment (1919 to 1933) (Base average 1923 to 1925 = 100 per cent). (Based on indices of Federal Reserve Bulletin. Reproduced from *New York Times*, Sunday, July 30, 1933.)

Chart 38 on the last page traces indices of industrial production and factory employment given in the foregoing table. In other words, it continues the story told by Chart 37, although the bases of the two indices are different. The most striking feature of Chart 38, as well as Chart 37, is how the index of factory employment failed to keep up with the index of industrial production between the minor depression of 1921 and the major depression of 1929 to 1933. This was particularly evident from 1921 to 1923, and again from 1927 to 1929. In the cyclical decline from 1929 to 1932, this gap between industrial production and factory employment was gradually closed, production falling even more precipitously than employment. But, in the recovery movements in 1932 and 1933, industrial production leaped far ahead of factory employment, just as it had done before in the period of recovery following the minor depression of 1921.

A review of the indices of industrial productivity given in Chap. IV will reemphasize the fact that industrial output increased far more

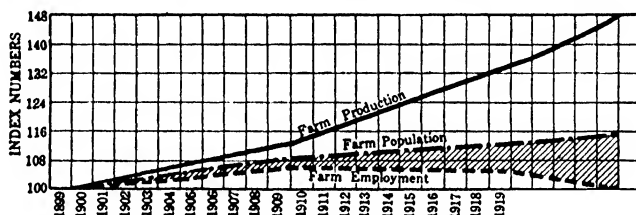


CHART 39.—Agricultural production, farm population and agricultural employment (1899 to 1925) (Base—level of 1899 = 100 per cent). (Reproduced from *American Labor Legislation Review*, p. 67, March, 1928.)

Shaded area indicates the excess of farm population over the number needed to operate the farms.

rapidly than employment in the period between the World War and the great depression from 1929 to 1933. In this connection it will be found helpful to refer back to Charts 7a, 8, 9, and 10.

**5. Technological Unemployment in Agriculture.**—Chart 39 gives the secular trends of agricultural production, agricultural employment, and farm population from 1899 to 1925. The gap between the indices of production and employment is even more evident in agriculture than in manufacturing. Although farm production in 1924 was almost half again as great as in 1899, farm employment was at the same level, having risen slightly, remained fairly stable, and then gently declined to its 1899 level. Although the index of farm production rose far above that of farm population, farm employment failed to keep pace even with farm population. Hence the movement from the farm to the industrial city during the new industrial revolution before 1929. It is evident that agriculture was unable to absorb the displaced workers of manufactures, for the very apparent reason that there had been taking place an agricultural revolution in the countryside analogous to the industrial revolution in our cities and towns.

**6. Cyclical Unemployment from 1929 to 1933.**—The recent business depression was of unprecedented magnitude in many respects, perhaps chief of which was the enormous and protracted problem of unemployment. The Federal Census Bureau estimated the number of unemployed in April, 1930, at over 3,000,000, but it rose in the following three years to several times that figure. On the basis of the 1930 census figures, the amount of unemployment was estimated at about 5,000,000 in the summer of 1931, increasing to from 8,500,000 to 10,000,000 in July, 1932.<sup>1</sup> This huge total represented about one person out of every five gainfully employed.

Other conservative estimates of unemployment were even higher, varying from 10,000,000 to 15,000,000. The *Federal Reserve Bulletin* just cited on page 275 gave an index of factory employment in 1932 of only 64 per cent of its predepression level, as represented by the 1923 to 1925 average.

A recent report of the National Industrial Conference Board, resting on the enumeration of the Census Bureau and "more or less reliable indications of what happened since that time," tells the following story. It will be seen that the peak of unemployment was reached in March, 1933, when the number of unemployed passed 13,000,000, after which it receded to about 8,000,000 in March, 1934.

#### VOLUME OF UNEMPLOYMENT DURING THE GREAT DEPRESSION<sup>1</sup>

1930:		1933:	
April.....	3,188,000	January.....	12,237,000
1931:		March.....	13,203,000
January.....	6,586,000	July.....	11,416,000
July.....	7,728,000	October.....	9,332,000
1932:		1934:	
June.....	11,350,000	January.....	9,362,000
July.....	12,197,000	April.....	7,907,000

<sup>1</sup> *Conference Board Bulletin*, p. 41, June 10, 1934.

**7. Effects of Unprecedented Volume of Unemployment.**—This huge volume of unemployment resulted in a tremendous increase in the amount of poverty and pauperism. The financial resources of private social agencies were soon exhausted and public relief was demanded of local communities. Then it became necessary for the states to appropriate funds to local units of government to supplement their inadequate financial resources. Finally, the Federal government was forced to make grants in aid to the states, to make direct appropriations for relief purposes, and to create employment by such rapidly organized bodies as the Civilian Conservation Corps, the Civil Works Administration, and the Public Works Administration.

Expenditures for relief by private organizations increased at an unprecedented rate and rose to formerly unknown proportions. In September,

<sup>1</sup> *Recent Social Trends*, vol. 1, p. 315.

1932, over 22 million dollars were expended by various agencies reporting to the Federal Charities Bureau. This represented over a 90 per cent increase over similar expenditures in September, 1931. Of this amount, over 15 million dollars, almost 70 per cent of total expenditures, went for general relief work, which represented an increase of over 134 per cent above the amount spent for that purpose in September, 1931.<sup>1</sup>

It can easily be seen from these figures that (1) every effort was made to increase by voluntary contribution the resources of private charity, (2) all available resources of private social agencies were turned from other desirable purposes to the immediate and pressing problem of direct relief, and (3) even increased and concentrated private relief was utterly inadequate. The short-run solution was direct public aid and the long-run solution must be social insurance. As will be demonstrated later, public work also is desirable during a period of depression, but it requires long-term planning.

Just as private relief expenditures during the depression years ran into the tens and hundreds of millions of dollars, so public expenditures for direct aid and indirect assistance through public-works projects ran into hundreds of millions and even billions of dollars. The combined local, state, and Federal debts, already considerable in size, were increased by emergency expenditures to almost astronomical proportions.

**8. Is Unemployment Increasing?**—In the long run, the supply of labor and the demand for labor tend to balance. It is also true that the supply of labor constitutes a potential demand for the products of labor. How then can there be a secular trend toward increased unemployment?

To the extent that a worker produces, he is able to consume, provided, however, that his increase in wages is proportionate to his increase in productivity. Again, an increase in the supply of labor is an increase only in the potential demand for labor and not necessarily in effective demand.

It will be shown in a later section of this chapter that unemployment is essentially a maladjustment between the supply of labor and the demand for labor. Although temporary and local in its particular aspects, this maladjustment may be continuous, displaying itself sometimes here and sometimes there, but always somewhere. Again, this maladjustment may become greater over a period of years, if the decade is a very dynamic one.

Changes in methods of production may be so rapid over a period of years that the labor market cannot adjust itself to them in time to prevent an increase in unemployment. This lag between technological progress and labor adjustment may be considerable. Moreover, it may increase and thus swell the volume of unemployment during a period of industrial

<sup>1</sup> DIAMOND, H. M., "Rugged Individualism," *American Labor Legislation Review*, p. 120, December, 1932.



revolution. Such was the situation in England over a century ago. It was apparently true, also, of the United States during its new industrial revolution of recent years.

Although many economists maintain that the unemployment resulting from the introduction of machinery is temporary rather than permanent, and local rather than general, other students of the problem do not share this general optimism. Modern industrial society is a dynamic and not a static one. In its final analysis, a long-run trend is the resultant of numerous short-run tendencies. John A. Hobson, the great English economist, summarized the situation as follows:

That the net influence of machinery is to diminish employment so far as those industries are concerned into which machinery directly enters, and to increase slightly the demand in those industries in which machinery affects but slightly or indirectly. The tendency is to draw ever and ever larger numbers of workers from the less to the more unsteady employment.<sup>1</sup>

**9. General Causes of Unemployment.**—The causes of unemployment, like those of any other social problem, may be divided into objective or environmental causes and into subjective or personal causes. Subjective and objective causes, however, are in reality merely two different ways of analyzing the same set of factors. As far as the economic problem of unemployment is concerned, individual cases do not determine the fact of unemployment, but rather its incidence. Personal causes do not determine so much the existence or the amount of unemployment as which individuals will be out of work when unemployment does increase.

Individual contributory causes of unemployment include intemperance, crime, indolence, disease, degeneracy, old age, and various physical, mental, or moral defects. These factors, however, need not be stressed, for they are more important in a causal analysis of the unemployable group than of the unemployed group.

Objective or environmental causes of unemployment may be grouped under the physical or social environment. It goes without saying that any such classification is both arbitrary and overlapping. Nevertheless, it is convenient.

Under the physical environment may be mentioned such factors as floods, earthquakes, storms, and droughts. The vagaries of the weather may create temporary unemployment or temporary employment. A snowstorm gives work to the idle, if an unemployed labor reserve at a particular time and place is assumed. Of course, a snowstorm or hailstorm cannot be regarded as a social blessing, for, had they not occurred, it would have been theoretically possible to put at other productive tasks

<sup>1</sup> HOBSON, J. A., "The Evolution of Modern Capitalism," pp. 234-235.

workers employed in shoveling snow or putting in panes of glass. Again, we are face to face with the "lump-of-labor" fallacy.

Under the social environment may be mentioned such direct or contributory causes of unemployment as may be found in our social, economic, and political institutions. Thus war always has a disturbing influence causing a temporary or permanent readjustment, and in its wake acute or chronic unemployment in some places and industries, but perhaps increased employment elsewhere. For illustration, during the American Civil War many of the cotton mills of England were closed and thousands of English textile workers were thrown out of employment. Again, the World War caused even more serious maladjustments in international trade, which produced an almost chronic post-war condition of unemployment in Great Britain, due to her loss of foreign markets and the languishing of certain important export industries.

The most important and most direct causes of unemployment, however, are to be found in our economic environment. Any survey of the problem would be incomplete without a discussion of the following causal factors: maladjustments in the equilibrium of the demand for and the supply of labor, changes in methods of production, changes in the demands of consumers, seasonal occupations, the business cycle, industrial conflict rather than cooperation, and changes in the tariff and international trade.

**10. Maladjustments in Labor Demand and Supply Equilibrium.**—Unemployment is peculiarly a problem of our present specialized economic society, resting on division of labor and exchange. Unemployment in the strict sense of the word did not exist in a simple economic order where production was direct rather than roundabout, and where the producer and the consumer were identical.

The American pioneer was his own butcher, baker, and candlestick maker. He used his own time at his own direction for the production of such goods as were necessary to the satisfaction of his elementary wants. There were few tools or other forms of capital, and there was no extensive wage system. The worker was his own employer and independent of distant markets and general industrial conditions. The economic forces of supply and demand were crystallized in his own person. Hence there was no problem of unemployment.

The frontier has long since disappeared from American life and modern industrialism has taken its place. Industrial evolution has resulted in the transition from a simple to a complex, and from an undifferentiated to highly specialized, economy. Today, few people satisfy directly by their own labor a given economic want. On the contrary, most individuals consume daily the products of thousands of different specialized workers whom they have never seen. Likewise, they limit

the scope of their own labor to the production of one economic good or, rather, to one particular phase of its production. This great cooperation of specialists is made possible only by the similar development of a very intricate mechanism of exchange. Regularity of employment now depends on the nicety of adjustment between the consumption and production of countless economic goods and services, made by innumerable specialists who are unknown to each other.

Division of labor has made possible the production of more goods, cheaper goods, and, perhaps, better goods, but it is fraught with certain grave dangers, one of which is that of unemployment. As long as this delicate machinery of specialization and exchange works smoothly, all is well; but if friction occurs in some one part, the whole mechanism suffers. A Swiss watch is a better timepiece than a sun dial, but it gets out of repair more easily.

Standards of living are higher today than before the industrial revolution and the poor man's table has on it comforts from all parts of the world. Nevertheless, this very interdependence of our modern economic world makes it a veritable house of cards. Thus a strike among the coal miners of Pennsylvania may force New England textile mills to close, and a drought in Argentina may put London dock hands out of work. We have passed from a local to a national economy, and from a national to an international economy. American tariffs and German reparations decidedly affected the unemployment problem in England.

Not only is there division of labor among individuals and among territories but also over periods of time. Modern economic production is not only specialized but also roundabout and capitalistic. Labor was formerly applied directly to natural resources for the production of some finished consumption goods. Today, labor first spends itself on the production of capital, and then, aided by the use of these capital goods, labor turns toward the final production of the desired consumption goods. Capitalistic or roundabout production is far more effective than the direct method, but it is more susceptible of misdirection. In such a case, great economic and human loss results, not the least of which is the problem of unemployment.

Between the raw materials of production and the finished consumption goods, many stages interpose. The wool on the sheep's backs may be sheared next year, carded a year hence, woven into cloth still further in the future, and perhaps not be made into suits of clothing for many years. Because capitalistic production is roundabout and time consuming, and because producers must prepare for a prospective future demand rather than for an actual present market, production must be carried on in anticipation of demand rather than in response to it. This necessary condition enhances the possibility of error in production and the serious-

ness of changes in consumers' wants. Because modern production is spread out over a long period of time, the original wants of the prospective consumers may change in the meantime. The demand, in anticipation of which production has been carried on, may vanish.

Although general overproduction is impossible, in the sense that more goods can be produced than can be consumed, it is possible to have misdirected production, *i.e.*, the production of too much of one good and not enough of another in proportion to their relative demands. Again, overproduction of a good or of numerous goods is possible in the sense of the making of more than can be sold at a profit above costs of production. The results of misdirected production or of a fall in prices below their former costs of production are business stagnation or an interruption of production, with their disturbing effects on employment, through the rude jarring of the delicate equilibrium between the demand for and the supply of labor.

Of course, labor creates its own demand for its own products. In the final analysis, producers are consumers and consumers are producers. It is perfectly true that in the long run the demand for, and the supply of, labor must balance. This economic principle, however, like any other scientific law states merely a general tendency. There are numerous opposing forces and disturbing influences, for modern industrial society is complex and not simple, dynamic and not static. At any given time or place, there may not be perfect balance between the demand and supply forces of labor. Hence, there exist unbalanced industries, unbalanced localities, and unbalanced periods. Thus the maladjustment of unemployment will continue to display itself, now here and now there, but always somewhere. It may be temporary, local, or particular, *i.e.*, affecting only a given time, a given industry, or a given group of workers, but for society in general the maladjustment is permanent and continuous.

A dynamic, complex, and interdependent society may reduce unemployment through better industrial planning, but it is almost impossible to eliminate it entirely. The danger of unemployment is inherent in our specialized, interdependent, and capitalistic economy, in which production is carried on by private enterprise and on individual initiative, rather than by cooperative group planning. The price system, like an economic thermostat, is an effective regulator of production and consumption, but it does not function perfectly and immediately. Hence maladjustments exist and unemployment continues.

**11. Illustration of Industrial Maladjustment.**—The bituminous-coal industry illustrates an economic maladjustment which has been productive of a serious problem of unemployment, irregular employment, and chronic underemployment. In addition to the problems of casual unemployment, seasonal unemployment, cyclical unemployment, and technical unemployment, this industry has been characterized by

tremendous overexpansion. It was intensified by the increased rise of petroleum products for fuel and by the development of hydroelectric projects to supply power to industry and transportation. Although a basic industry, the mining of soft coal has been done with little cooperative planning in the interests of national economy.

The Bituminous Coal Commission appointed by President Wilson in 1919 reported that

. . . at the present time America requires less than five hundred million tons of bituminous coal a year, while the capacity of the mines in operation is over seven hundred million tons.

Mr. Hoover indicted the bituminous-coal industry as follows:

Broadly, here is an industry functioning badly from an engineering and, consequently, from an economic and human standpoint. Owing to the intermittency of production, seasonal and local, this industry has been equipped to a peak load of 25 or 30 per cent over the average level. It has been provided with a 25 to 30 per cent larger labor complement than it would require if continuous operation could be brought about.

There lies in this intermittency not only a long train of human misery through intermittent employment, but the economic loss to the community of over 100,000 workers who could be applied to other production, and the cost of coal could be reduced to the consumer.<sup>1</sup>

The World War created an overexpansion in the soft-coal fields as in numerous other industries, such as iron and steel. This overexpansion in the bituminous-coal industry, however, was far older than the World War. Again, little indication of an improved adjustment was manifest in the decade following the World War. The fever of overexpansion and the lameness of readjustment seem to be chronic ailments, from which the coal industry, before the reconstruction legislation of 1933, showed only slight chance of recovery on its own initiative.

**12. Changes in Methods of Production.**—As modern industrial society is dynamic, changes in methods of production are numerous and continuous, as represented by the invention of power machinery and by the introduction of new methods of manufacture, transportation, and communication. Thus technological progress requires constant readjustment and creates continuous maladjustments, such as unemployment. These are the social costs of progress or the growing pains of a dynamic society, against which its members must be protected.

Revolutionary changes in methods of production took place in England over a century ago during the first industrial revolution. The crude spinning jenny of Hargreaves, for illustration, enabled a single person to spin as much as twenty or thirty people could have done in the

<sup>1</sup> HOOVER, HERBERT C., Inaugural Address before American Institute of Mining and Metallurgical Engineers, Feb. 17, 1920.

same length of time on the old-fashioned spinning wheel. Consequently, its immediate effect was to put a number of hand workers out of employment. The long-run effect of the introduction of power machinery in the textile industry, however, was that more workers were engaged in manufacturing in the English factories after these great mechanical inventions than had formerly been employed in their own homes under the domestic system of manufacturing goods by hand.

The process of mechanical invention has been fairly continuous and very rapid during the past century. Almost every new machine and each improved process have put some group of workers temporarily out of employment. The tremendous adjustment necessitated in the labor market by each new machine can be illustrated by the following inventions. The McKay sewing machine revolutionized the manufacture of shoes. This machine sews the soles of 100 pairs of shoes in an hour and a half, as compared with 100 hours of time previously spent in the former method of cobbling shoes by hand. Thus, one man can do the work of 60. The still more recently invented Owens glass-bottle machine can produce 15,000 bottles per day with a total of four men, each working on a shift of only 6 hours, whereas a single glass blower could formerly make only 200 bottles in one shift.

It is contended that this unemployment is merely temporary and that the discharged workers will find employment in other fields. Each new invention reduces the cost of production and, hence, lowers the price of the article produced. Therefore, it tends to leave more purchasing power in the hands of consumers with which to buy other products or more of the same product. Hence the ultimate and total demand for labor is not reduced, and displaced workers will eventually find reemployment. The process of adjustment may be painful to the group of workers affected, but it is only temporary or local.

The invention of power machinery and the introduction of new processes, however, work a severe hardship on the skilled worker who has spent years in learning his trade and who is now forced to seek a new one. If he is too old or otherwise incapable of making the necessary adjustment, he may suffer a permanent loss of employment or be forced to accept the lower wages of a less remunerative employment. It should be remembered, however, that the greater economic well-being of society in general is of more importance than the special interests of any particular group therein.

The vested-interests argument may be applied to labor as well as to capital. It has been suggested that a displaced worker be compensated by society for the financial loss to him of the introduction of machinery. Although such a suggestion seems extreme, employers will do well to consider the effects of the introduction of a given machine on their workers' morale as well as on their profits sheet.

In the past, organized labor has been hostile to the introduction of machinery, but recently it has attempted to face the inevitable and to secure the best possible compromise. Thus a happy solution was found in the case of the linotype machine. Employers agreed to use for its operation only skilled printers, formerly engaged in setting type by hand, provided they would learn to use the new invention. Their skill at hand composition was of some value in the operation of the new linotype machine. Although the immediate effect of this invention was to force some of the former printers out of employment, the reduced cost of publishing stimulated the demand for printing. The net result was that more men were employed after the invention of the linotype machine than formerly, even within the printing industry itself.

**13. Changes in the Wants of Consumers.**—Styles are set by the classes and imitated by the masses. When a given article becomes too common, it thereby becomes taboo to fashionable society. Vogue, rather than reason, is the determining motive. Although individual tastes are not eliminated, they are rigidly circumscribed by the dictatorship of what is considered good form.

Fashion is a fickle mistress, for her whims change continuously and suddenly. Thus long dresses gave way to short dresses, only to be replaced again by long dresses. Long hair was bobbed, only to be grown long again. The furniture of one period has been supplanted by that of another. Thus wooden beds gave way to brass beds, which were later supplanted again by wooden beds. One winter, cloth-topped shoes held sway at the expense of leather-topped shoes, but the following winter they were considered old fashioned. Extremely high shoes for winter wear gave way a few years ago to low shoes with woolen hosiery. The red flannels of our grandmothers have been banished by the dainty lingerie of the modern girl. Linen fabric was supplanted by cotton, cotton by silk, and now the flourishing silk industry is being threatened by rayon. Still more recently, cotton has again become the vogue.

Changes in fashion are social in character, but they have tremendous economic effects. Inasmuch as production must be carried on in anticipation of demand, rather than in response to demand, sudden and unforeseen changes in the wants of consumers cause misdirected production. Although the average consumer is unaware of them, their economic wastes and their social costs are tremendous. In some shops, there are unemployed workers and idle capital, while in other establishments overtime and night work are necessary in order to supply the latest whim of the public.

Increased standardization and greater stability of economic wants would be accompanied by an enormous reduction of waste which the consumer might enjoy in the form of more goods, better goods, and cheaper goods. The employer would benefit by a decrease in the

uncertainties of business and by a reduction of obsolescence of machinery and other equipment. The workers also would enjoy a greater security from the constant menaces of unemployment, on the one hand, and the sweatshop, on the other.

**14. Seasonal Occupations.**—A great English economist, and the pioneer student of unemployment, carefully studied seasonal unemployment as a very important phase of the general problem of unemployment. He discovered that in the building trades there was 80 per cent more unemployment in the slack month of December than in the busy month of August; in the manufacturing of furnishings three and a half times more unemployment in the slack month of January than in the busy month of April; among machinists about 50 per cent more unemployment in the slack month of December than in the busy month of May; and among printers twice as much unemployment in the slack month of August as during the busy month of November.<sup>1</sup>

Seasonal unemployment is due to periodic variations within the year in the demand for labor of a given type, due to seasonal conditions of production or of demand. Thus wheat must be harvested and vegetables canned in the late summer or early autumn. Again, building can be done more easily and economically in the summer months and lumbering in the winter.

Consumers' wants likewise are subject to regular variations in character, owing to changes of season. Thus the clothing and millinery industries have fall and spring seasons, owing to changes in the temperature during those seasons. The intervening summer and winter months are slack seasons.

Again, social customs, such as Christmas giving and Easter parading, give rise to seasonal variations in the nature and amount of the goods demanded, which seriously affect the volume of employment. Christmas holidays are stimulating to department stores and to other retail mercantile establishments, but there is generally a seasonal slump in the months which follow. Extra help is taken on during the rush season, only to be dismissed afterward.

Numerous shops have attempted to stabilize their business by special sales at reduced prices during the slack months. Such bargain sales also permit them to dispose of the past season's goods rather than to assume the expense and hazard of carrying them until the next season.

Demands for coal and ice are in large part seasonal. Although the coal dealer may induce the individual consumer, by a slight reduction of price, to buy his coal in the summer and to store it in his own home, such a possibility is not open to the dealer in ice. The small consumer of ice must depend, even from day to day, on his local dealer.

<sup>1</sup> BEVERIDGE, W. H., "Unemployment: A Problem of Industry," p. 29.



Where the seasonal character of an industry is due to the effects of alternating weather conditions on production, rather than on consumption, stabilization of employment is more difficult. Thus the production of ice was necessarily a winter industry before natural ice was supplanted by artificial ice. Lumbering still remains chiefly a winter industry, where the logs are sledged down to the mills or rivers. The harvesting of grain and other crops is an autumn industry in countries within the north temperate zone. The great canneries, which employ thousands of workers, can operate only in the summer and autumn months when the fruits and vegetables ripen. Construction work and the building trades flourish in the spring, summer, and autumn, but they languish in the cold winter months when frost, snow, and sleet make outdoor work difficult.

The dovetailing of seasonal industries tends to reduce their disastrous effects on regularity of employment. Thus the common combination of coal and ice dealers has been beneficial, for the employer can maintain a year-round force of workers, most of whom can deliver ice in summer and coal in winter. It is obvious, however, that there are numerous limitations to such a dovetailing of industries. It is peculiarly difficult where the occupations are unrelated or where they call for a considerable degree of skill. Thus it is difficult for printers to become carpenters or machinists in order to balance the seasonal character of these very different industries. Even if such a mobility of labor could be secured, it would not completely solve the problem. It has just been indicated that the total demand for all workers appears to be greater in some months than in others.

Although the dovetailing of industries, wherever possible, would help greatly to minimize seasonal occupations, little has been done in this respect. Instead of a conscious planning of industries which might take in a portion of the unemployed labor during slack seasons, the present tendency is for each industry to build up its own labor reserve which can be utilized in busy seasons.

**15. Business Cycles.**—Unemployment due to a general period of business depression must be distinguished from that due to seasonal industries. Here we are face to face with the great economic problem of the business cycle. Without reviewing its various theories and causes let us recall how a period of business prosperity tends to culminate in a crisis, which is succeeded by a period of business depression, followed, in turn, by one of slow recovery. This gradually develops into a period of prosperity, and so on again, through the alternating phases of the business cycle, which tend to repeat themselves at fairly regular intervals.

The great human tragedy of a period of business depression is that of unemployment. Thousands of idle workers tramp the streets vainly in search of employment. Soup kitchens and bread lines put in their

appearances. Moreover, unemployment creates more unemployment. When large numbers of workers are thrown out of employment, there is a serious loss of wages, which means not only misery to the unemployed but also a reduction of purchasing power within the community. This decrease in effective demand accentuates the business depression.

Recent illustrations of cyclical depressions, characterized by an enormous increase of unemployment, are those of 1892 to 1893, 1904 to 1905, 1913 to 1914, 1920 to 1921, and 1929 to 1933. The depression of 1914 was said to have forced two million workers out of employment with an equal number on part time. The depression of 1921 was apparently twice as bad. In June, 1921, according to official estimates there were four million employees idle and as many more on part time.<sup>1</sup> The depression of 1929 to 1933, discussed in preceding sections, raised the number of unemployed to twelve or thirteen millions. If the business cycle is a permanent and irremovable feature of modern capitalism, and if past experience affords any basis for conjecture into the future, the next depression should come about a decade hence. A review of the increasing toll of business depressions in ever-increasing volumes of unemployment makes one shudder to think about the consequences of another "bigger and better" period of prosperity if it is to terminate in a still worse depression.

**16. Industrial Conflicts.**—It is difficult to determine what proportion of unemployment may be ascribed definitely to strikes and lockouts rather than to general industrial conditions. Broad economic factors, such as the state of the market, play no small part in shaping the policies of both labor and management. Industrial conflicts are avoided by employers in periods of prosperity but faced more squarely by them in periods of depression. At such a time a strike or lockout may merely eliminate the necessity of a general layoff of the workers. Hence it is difficult to say to what extent, if any, industrial conflicts staged during periods of industrial depression swell the net amount of unemployment.

The New York Board of Mediation and Arbitration estimated that the number of man-days lost by all wage earners because of strikes and lockouts was less than 1 per cent of the total number of man-days lost from work through all causes. Studies of unemployment among the organized workers of Massachusetts and New York also seemed to agree that only 1 or 2 per cent of the total volume of unemployment might be attributed to strikes. Hence the effects of industrial disputes on production and unemployment have been greatly exaggerated. Nevertheless, they are serious for many reasons, as will be shown in Chap. XIV.

**17. Changes in the Tariff and International Trade.**—The tariff has been said by its devotees to create employment. Its enemies have replied that the tariff creates an expansion in a given industry and an excess

<sup>1</sup> *American Labor Legislation Review*, September, 1921, and March, 1928.

production in certain lines, which helps to cause an economic crisis, followed by a period of depression and unemployment. The truth is to be found in neither extreme. Unemployment is caused not so much by a tariff or the absence of a tariff as by its constant changing.

Anything which has a disturbing influence on trade and commerce will spoil the careful adjustment necessitated by division of labor, for it will destroy, temporarily at least, the delicate equilibrium which has been built up between the demand for and the supply of labor. It has already been pointed out that modern specialization and exchange are no longer local or even national, but that they are international. Any disturbance of the usual channels of international trade will produce unemployment in some part of the world.

The delicate mechanism of territorial specialization and exchange is as difficult to restore as it is easy to disrupt. The recent World War is a tragic illustration. The financial collapse of Germany meant the loss of important markets for English exports. In the years which followed the great conflict, England struggled with an enormous unemployment problem. Great Britain, as well as other allied nations, became less enthusiastic about the payment of German reparations when it was perceived that unemployment might result from a depression in certain home industries by the payment of reparations in coal and other commodities.

**18. Social Costs of Unemployment.**—Although unemployment is costly to employers and to society in general, its chief burden rests on labor. To the worker, unemployment means the loss of wages and a temporarily or permanently lowered standard of living. As his meager savings are soon exhausted, the man out of work faces the unpleasant alternatives of starvation or charity.

Unemployment affects other workers besides the unemployed, because a general wage reduction is apt to occur. Discharged laborers naturally seek employment elsewhere in other occupations where the increased demands for work facilitate the cutting of wages. Individuals out of employment will often work for less money than they formerly received, and sometimes even for less wages than other workers in those jobs to which they aspire.

Unemployment has a psychological, as well as a material, effect on the discharged worker which is equally demoralizing. Irregular employment makes difficult the formation of steady habits of thrift and industry. It is easy to drift with the current into the great river of casual and migratory laborers. It is also natural for the unemployed or the irregularly employed eventually to float out into the vast sea of poverty and pauperism. The change from a casual or migratory laborer into a tramp, a delinquent, or a dependent is as easy as his transformation into a steady and industrious worker is difficult.

Unemployment is costly to the employer as well as to the employee. Although the employer may have a greater financial reserve than his employee, a closed factory pays no dividends. Overhead charges, such as the interest on idle capital, soon eat up past earnings. Moreover, the "laying off" of workers tends to break up the employer's organization, and its general efficiency is lower when increased output again becomes necessary. Even under normal conditions the continual "hiring and firing" of labor is expensive.

The economic costs of unemployment to society in general also are important. Unemployment creates more unemployment. The majority of consumers are wage earners, and unemployment reduces their purchasing power. Consequently, their effective demand for various economic goods declines and production falls off proportionally. This, in turn, creates more unemployment and the vicious circle is complete.

The social costs of unemployment may be read also in the rates of crime and poverty. Unemployment is both a cause and a result of dependency and delinquency. A period of industrial depression, with consequent loss of employment, will increase greatly the demands on public charity. There is also apt to be an increase in petty crimes against property, if not in more serious crimes against person.

Unemployment among adult male workers may be either a direct or a contributory cause of child labor and of the entrance of women into industry. The desire to supplement the family income in this crisis may lead to the employment of women and children under sweatshop conditions. The entire labor market becomes "easy."

Unemployment breeds discontent, radicalism, and a general spirit of unrest against the existing economic order. Workers who are able and willing to work, but unable to find employment, are easy converts to revolutionary doctrines and disorderly actions. On the other hand, regularity of employment and a living wage are the best practical arguments among laborers in the defense of the *status quo* of modern industrialism.

**19. Labor Reserve.**—Unemployment is to be regarded as a temporary or local maladjustment in the demand for, and the supply of, labor which prevents a continuously perfect equilibrium. Even under the most ideal industrial management, there is bound to be a certain amount of unemployment. The result of this chronic problem of unemployment is the existence in industrial society of what is known as the "labor reserve."

The labor reserve consists of those workers whose employment is more or less irregular. It constitutes a great human reservoir of labor on which the industry can draw when necessary. The labor reserve is the embodiment of the problem of casual unemployment, although it also embraces seasonal and even cyclical unemployment. The labor reserve consists chiefly of those workers whose services are not continuously

required, but who may find employment from time to time. It includes chiefly, but by no means exclusively, the unskilled and the semiskilled workers. It embraces not only the temporarily unemployed groups, but also the great twilight zones between the unemployed and the unemployable. At any given time, the employer selects only the most likely workers from among the total number of applicants around the factory gates, and those in excess of his immediate needs are thrown back into the great labor reserve.

The smallness of the labor reserve is a good test of the ability of industrial society to use effectively its human resources. It is sometimes large and sometimes small, depending on business prosperity in general and on conditions in particular industries. The size of the labor reserve depends not only on the irregularity of employment within an industry, but also on the total number of separate employers. The immobility of the workers tends to increase these "stagnant pools of labor," known as "labor reserves," the total number and size of which are further increased by the tendency of each employer to develop his own center of employment rather than one for the whole industry or for the entire locality.

If the volume of business varies from day to day or from week to week, the number of workers inside and outside the factory gates will tend to equal the total number employed during the busiest period. Such was Beveridge's analysis of the tendency of the labor reserve of any particular industry. He contended that the total number of workers who congregate about a given labor market tends to equal the maximum number for whom it is ever possible to find employment there.

One of the most unfortunate features of our present industrial system is this tendency of each business organization and of each community to build up its own labor reserve. It serves to make the problem of the employer easy by offering him a continuous and adequate labor reserve from which to select his employees. But, from a broad social and economic point of view, such a system is very wasteful of our great human resources, the labor of men.

Foreign labor has been an important contributing factor to this situation, for unskilled immigrants have been used to recruit the labor reserves of various industries. A Federal law now forbids the importation of foreign contract labor, but there has been no consistent national effort to adjust the great tide of foreign labor to the demand for it. The unskilled immigrant labor group is peculiarly ignorant, immobile, and capable of industrial exploitation. Not only do these foreign workers suffer acutely from unemployment, but they often displace, at lower wages, native laborers. Although the permanent effects of immigration on unemployment are controversial, it necessitates a constant process of adjustment in the labor supply which results in some unemployment.

The reduction of the labor reserve can be done only by an improvement in the labor market. Associations of fruit growers have developed bureaus of information, marketing associations, and better shipping facilities to distribute more intelligently and more effectively their perishable material products. Human labor is immaterial, but it is equally perishable and even more valuable. Nevertheless, its marketing is frequently less efficient than that of many commodities. At any given time, there may be an excessive supply of labor of a given type in one locality and an excessive demand for it, simultaneously, somewhere else.

**20. Migratory Labor.**—Migratory labor, as well as the labor reserve, is a serious problem of our modern economic organization. Thus the U. S. Commission on Industrial Relations estimated that there were several million American workers who were not definitely attached to any specific industry or to any particular locality. Moreover, it was felt that the number of migratory laborers was increasing, not only absolutely, but also relatively.

The chief cause of migratory labor is to be found in the seasonal character of numerous industries. Thus the workers released from agricultural pursuits in the autumn flock from the country into the industrial towns and cities. Again, the great army of men who harvest our wheat crop are forced to move from the south to the north as the crop ripens. In the winter months, they go still farther north into the forests around the Great Lakes where they engage in lumbering. In the spring months, a number of these casual workers find employment in construction work.

One of the most interesting developments in the field of migratory labor is the passage of Italian labor to and from Argentina. As the climatic seasons are reversed in the north and south temperate zones, the crop ripens in opposite months of the year and the same group of workers can harvest both in one year.

The effects of migratory labor on the individual are somewhat similar to those of irregular employment. Indeed, migratory labor is apt to be very irregularly employed. It is easy to migrate without definite employment and eventually to yield to the temptation of becoming a tramp or a member of the floating leisure class. Seasonal trades invite shiftlessness and a lack of responsibility. The worker can hardly transport his family with him as he goes from job to job. It is impossible to maintain a wholesome family life, but it is easy to sink into the group of petty criminals. The social effects of the economic problem of migratory labor are most unfortunate.

**21. Nature of Labor Turnover.**—Although there may be continuity of employment within a given industry, locality, or period of time, there may be no such continuity of personnel among the streams of workers who are

employed. Although the wheels of industry may not stop, hundreds of individuals may quit or be discharged, only to be replaced by other workers from other places of employment. This represents the problem of labor turnover, as distinct from the problem of unemployment to which it is closely related. It is the opposite of continuity of employment of a given group of workers within a given business organization.

Labor turnover may be any one of three general types: a general layoff of all workers, a discharge of particular individuals, and the voluntary quitting of certain employees. Although it is difficult to classify the nature of a separation of an individual from his job, most studies of the problem seem to indicate that the third type of labor turnover is greater than the other two types combined. The relative proportion of these different types of labor turnover varies in periods of depression and periods of prosperity. During periods of depression and unemployment, the relative proportion of layoffs is greater, but in periods of prosperity the relative proportion of voluntary separations is greater.

**22. Amount of Labor Turnover.**—The amount of labor turnover is difficult to measure. It would seem, however, that a labor turnover of 300 per cent has been common in many industries even in normal times. This means that, on an average, three men have been hired each year for every job within the plant. Thus, from October, 1912, to October, 1913, in the year before it introduced its employment department, the Ford Motor Company hired approximately 54,000 men in order to maintain an average working force of 13,000. Such a labor turnover of slightly over 400 per cent has not been unusual in many occupations. During the World War it was frequently much greater.

In 1918, twenty-two factories were studied by the U. S. Bureau of Labor Statistics. Of this group, it was found that four factories had a labor turnover of from 50 to 100 per cent, three factories had a labor turnover of from 100 to 150 per cent, two factories had a labor turnover of from 150 to 200 per cent, five factories had a labor turnover of from 200 to 250 per cent, three factories had a labor turnover of from 250 to 300 per cent, and five factories had a labor turnover of from 300 to 400 per cent.<sup>1</sup> Thus the median factory rate of labor turnover was from 200 to 250 per cent.

**23. Causes of Labor Turnover.**—The causes of labor turnover, like those of unemployment, may be approached from either the individual or the environmental aspect. Among the personal causes of excessive labor turnover are such factors as illness, a migratory tendency, or an uncongenial disposition. Within the environment are such economic and social factors as contribute to the general problem of unemployment.

One great cause of an excessive labor turnover is the absence of any personnel policy or the presence of other deficiencies in industrial manage-

<sup>1</sup> *Monthly Labor Review*, October, 1918.

ment. Poor methods of hiring and placing workers, the autocratic management of industry, the absence of financial or non-financial incentives to increased production, the presence of unfavorable working conditions, the absence of recreational facilities and the lack of vocational education are important direct or contributory causes of excessive labor turnover.

It would seem that skill and sex are also important factors in the problem. The rate of labor turnover is much higher for unskilled workers than for skilled workers. Perhaps the superior organization of skilled workers makes it possible for them to shape somewhat better their conditions of work. The common laborer may be discharged with impunity, for his place is easily filled. Again, he can express his dissatisfaction with his job only by quitting work, after which he must blindly look around for other employment. It would also seem that labor turnover is less among women than among men, in spite of the common assumption that women are merely loaned to industry.

**24. Effects of Excessive Labor Turnover.**—A certain mobility of labor is necessary to permit the force of competition among employers to smooth out wage irregularities in different industries and to improve the general working conditions. Some changing of occupations is desirable in the case of the men who are seeking to improve their position and to rise from one labor group into another. On the other hand, there is much labor turnover which is a mere change in personnel or a shifting of jobs without accomplishing these objectives.

The effects of excessive "hiring and firing" both on the individual worker and on industry in general are similar to those of unemployment. Again, the laborer may lose as many working days because of a frequent change of jobs as because of a long shut down of the plant.

Our previous discussion of the effects of unemployment makes unnecessary any lengthy treatment of the effects of excessive labor turnover. It produces industrial inefficiency, which, in turn, causes a still greater labor turnover. The frequent changing of jobs with intervals of idleness between them is demoralizing to the individual worker, because it destroys habits of thrift and steady industry.

Excessive hiring and firing is costly to industry. A permanency of personnel is a vital factor in efficient production. The cost of breaking in a new employee varies greatly in different industries, but it has been estimated at from \$25 to \$100 for ordinary semiskilled labor.<sup>1</sup> Although impossible to measure exactly, it is undoubtedly true that excessive labor turnover is a considerable tax on any industry in which it flourishes. Thus the expense of the 400 per cent labor turnover

<sup>1</sup> ALEXANDER, M. W., "Hiring and Firing," *Annals of American Academy of Political and Social Science*, vol. 67, p. 135, 1916.



within the Ford Motor Company for the year studied was estimated at about \$2,000,000. The total economic loss for the country as a whole from excessive labor turnover must be enormous.

**25. Reduction of Labor Turnover.**—The reduction of labor turnover like the reduction of unemployment is a very important problem of industrial management. Social unrest, as expressed in the passive form of labor turnover, is as important as that expressed in the active form of strikes and industrial conflict. Both may be reduced by the establishment of personnel departments, by a more enlightened policy of management, and by such programs as pension systems, welfare work, employee representation and profit sharing. Such a program of the liberal employer will be discussed in Part V.

Since the period of the World War there has been a great development of such experimental programs of management. There has also been a considerable reduction of labor turnover, if not of unemployment. It seems likely that there is a causal relationship between the new and more enlightened program of management and the reduction of labor turnover.

This reduction of labor turnover, however, was due to changed economic conditions, as well as to a more conciliatory attitude of management. Good jobs were not so easy to obtain in the period of industrial reorganization which followed the World War. It has just been demonstrated that, in the period between 1921 and 1929, the volume of employment did not keep pace with that of production. Nevertheless, considerable progress was made toward the stabilization of employment and toward the reduction of labor turnover.

**26. Reduction of Unemployment.**—The reduction of unemployment is even more important than the reduction of labor turnover, but less progress seems to have been made in this direction in spite of its great importance. Because unemployment is a chronic, as well as an acute, problem of modern industrial life, there exists the economic and social necessity of ascertaining, and keeping up to date, accurate and complete information as to the number of unemployed and their distribution over time, place, and industry. Efficient labor exchanges, comprehensive programs of public works, and unemployment insurance also are necessary.

Philanthropy affords merely temporary relief for the unemployed, and charity is a poor substitute for the right to a job. Although relief measures of a wholesome sort should be utilized during an unemployment crisis, an effort must be made to reduce the volume of unemployment. Like a scientific study of the elimination of malaria or typhoid fever, a scientific study of unemployment should begin with a causal analysis. Our brief survey of some of the chief economic causes of unemployment suggests measures for their elimination.

The reduction of sudden changes of fashion would eliminate some of the irregularities in industry which result in overtime, on the one hand, and unemployment, on the other. Popular education of both men and women on this subject would do considerable good. Anything which helps to stabilize and to standardize demand helps to reduce unemployment.

In general, the demand for necessities is more stable than the demand for luxuries. Hence the old slogan of "necessities for all, before luxuries for a few" has a corollary on unemployment. Economic production in accordance with this social maxim, however, will remain only an ideal so long as glaring inequalities in income exist. Effective demand, it will be remembered, is composed not only of desire, but also of purchasing power.

The growth of large business combinations and the decline of fierce competition tend to reduce fluctuations in the demand for labor. Monopoly price has at least the advantage of being relatively more stable than a competitive price. Moreover, with an expansion of the business unit, opportunities to dovetail different industries are increased.

The seasonal aspect of many industries is impossible to eliminate, as it is determined not only by our economy, but also by physiography and weather influences. Nevertheless, much can be done toward the dovetailing of seasonal occupations and toward increasing the mobility of labor. Although such remedies may reduce unemployment, they may intensify the migratory character of this labor, as illustrated by farming in summer and autumn, lumbering in winter, and construction work in the spring.

Irregularity of employment in many industries can be reduced by manufacturing for stock, *i.e.*, in anticipation of demand. Such a procedure involves a hazard on the part of the producer, because it intensifies the risk due to possible changes in the wants of consumers. It is safer for the employer to pass on a portion of this risk to his employees in the form of overtime in rush seasons and unemployment during slack seasons. Much could be done, however, by a mutual agreement on the part of manufacturers on a standardization of styles sufficiently far in advance. In the case of staple articles, however, it is possible to manufacture for stock far more than is done at present. By offering special discounts to preseason purchasers, the risks and financial outlays of dealers might be reduced.

The invention of machinery and other technological changes will probably continue in the future as they have in the past. Indeed, economic progress is apt to be accelerated. A dynamic society will always face a constant problem of adjustment. It is desirable, however, that future technological advances be accompanied by an increased social control over industry. It is also hoped that these adjustments

will be conscious adaptations in the light of ethical considerations with social welfare rather than private profits as the final goal. The scrapping of human machinery cannot be viewed with the same complacency in the future as it has been in the past.

The reduction of employment due to a general business depression brings us face to face with the problem of the business cycle. This transcends the individual business unit, and even the industry as a whole. It involves national and even international problems, such as those of money, credit, banking, and price levels. Without reviewing any of these, it may be said that any economic reforms, such as the stabilized dollar, for illustration, which tend to eliminate or to reduce business depressions tend, likewise, to reduce unemployment.

It is costly to permit industry to function without comprehensive planning. The World War revealed what a national economic program could accomplish toward improved labor markets and the reduction of the wastes of competition. The recent world-wide depression was a tragic illustration of industrial anarchy and economic drifting. Socialists and other critics of modern capitalism point to the waste and planlessness of economic production on individual initiative and under the lure of private profits. The Russian Gosplan represents an attempt to organize the entire economic system of that country in order to minimize waste and to increase efficiency. Capitalistic countries will do well to promote national bureaus of economics, committees of engineers, and industrial councils to consider the reduction of unemployment and other forms of economic waste by improved methods of industrial planning. In short, the reduction of unemployment requires more and better economic planning for (1) an individual business unit, (2) the industry as a whole, (3) the nation itself, and (4) the entire world.

Educational, as well as economic, reforms also are necessary. It is costly to have children and young people in blind-alley jobs rather than in school. Although vocational education has captured our public-school system, a number of educators are still insisting on a general industrial or commercial education, rather than on highly specialized schools and courses. Again, guidance work and school counseling are helping to bridge the gap between schools and industry. It may be that we have gone too far in the matter of extreme specialization. There is as great a dearth of the general all-round mechanic as of the bedside physician. It is hoped that the education of tomorrow, both within the schools and within industry, will increase not only the skill but also the adaptability and the mobility of our future wage earners. This will enable them to shift more readily from one occupation to another under the stress of unemployment. Industrial opportunity lies with the adaptable or the "double-barreled man." It has been suggested that an individual learn two allied trades instead of one specialized occupation.

**27. Employment Agencies.**—Employment agencies cannot reduce unemployment by creating work, but they can aid materially by seeking to bring together the jobless man and the manless job. They can reduce the aimless wandering from place to place of men out of work. Although they cannot make work, employment agencies can help to adjust the supply of labor to the demand for it. It has been said that the organization of the labor market has been even more inefficient than the organization of produce markets. Employment agencies represent an attempt toward an intelligent organization of the labor market.

Employment agencies are of two general types, public and private. Public agencies, in turn, may be classified as Federal, state, or local labor exchanges.

Private employment agencies are of various types. There are the ordinary fee-charging agencies which are conducted for profit like any other business. There are also philanthropic associations which do not charge a fee, and which are not influenced by the profits motive. In the last place, there are employment agencies conducted by associations of employers and agencies conducted by labor organizations.

The last two groups of agencies are somewhat partisan and are apt to be viewed with suspicion by the opposite sides. This feeling hinders their effectiveness as employment agencies. Private non-profit-making employment agencies are generally very limited in their sphere of usefulness and do not reach the masses of the unemployed. As many of them are under the direction of charitable societies, both employer and employee are prone to feel that they are trying to find jobs for the less efficient workers of the dependent groups.

Employment agencies in this country have been left largely to individual initiative rather than undertaken as a legitimate public function. There are now several thousand private profit-making employment agencies in the United States. Although probably better than none at all, they are far from satisfactory. Although some maintain fairly high ethical standards and perform useful social functions, the reverse is the case with others. Although there are many reputable and satisfactory private agencies, the majority of them are dominated by the search for profits rather than by the desire to serve a great economic need.

Fraudulent and extortionate practices have been only too common, as all studies of private employment agencies indicate. Vacancies have been sometimes encouraged as a potential source of fees. A misrepresentation of terms and a splitting of fees with plant officials have been frequent. When employers order men from several agencies at the same time, the result is the sending to a given place of crowds of workers far in excess of the local demand. It was the conclusion of the Commission on Industrial Relations that the private employment agency

"business as a whole reeks with fraud, extortion, and flagrant abuses of every kind."

The majority of states now have some sort of legislation on the subject of private employment bureaus, the worst practices of which have generally been eliminated. State statutes on this subject generally forbid the deliberate misrepresentation of facts, the falsifying of records, the sending of women into immoral resorts, the splitting of fees with employers or foremen, the sending of applicants to fictitious jobs or, indeed, to any employment without a written order from the prospective employer, the charging of fees without the rendering of employment services, and numerous other past practices of a bad or questionable sort.

In 1914, the State of Washington passed by popular vote a law to eliminate the private fee-charging employment agency. This law, however, was declared unconstitutional by the Supreme Court in 1917 as a violation of the guarantee of freedom of contract. Of course, this decision did not destroy the power of a state or the Federal government to regulate the practices of private employment agencies. Nor did it impair the right of a state or any administrative unit thereof from developing its own free public employment bureau in competition with existing private agencies. It merely forbade an exclusive state employment agency and the complete elimination of private agencies.

**28. Public Labor Exchanges.**—The first free state employment bureau in America was established by the State of Ohio in 1890. A few states followed, but the early movement met with little success. Of recent years, there has been considerable progress toward public employment bureaus as a legitimate state function. Before the World War, about half the states maintained public employment bureaus, some of which were fairly successful. Thus, the State Bureau of Employment established in New York in 1915 has had a very satisfactory record. The Reconstruction Program of the American Federation of Labor in 1919 demanded the development of public employment bureaus and their substitution for the private profit-making employment agencies.

A number of American cities also have experimented with free public employment bureaus, but they were rarely effective at first. Insufficient appropriations, political influences, and the opposition of private interests militated against their success. Considerable progress, however, has been made and a number of cities now have public employment bureaus, many of which cooperate very effectively with those of other cities and with their own and other state bureaus of employment.

The Federal government has had the greatest success in this field. The movement was begun in 1907 with an attempt on the part of the Bureau of Immigration to place some of our immigrants upon farms and not in crowded cities. But for the next ten years comparatively

little was accomplished. In 1915, however, this service was extended to all classes of labor and to all occupations.

The World War showed keenly the necessity for the conservation and mobilization of our labor resources. In 1918, the Federal secretary of labor reorganized the U. S. Employment Service. An attempt was made to coordinate state, county, and municipal bureaus under this central Federal agency. Advisory boards of employees, employers, and public officials were created. Federation, but not centralization, was sought through this national organization. The advantages of consolidation were desired without a destruction of local organizations. Considerable autonomy was regarded as highly desirable in the attempt to cope with the problems of unemployment.

The first European nation to develop a coordinated national system of labor exchanges was Great Britain. The Labor Exchanges Act of 1909 authorized the Board of Trade to do this. In 1917, there was created a Ministry of Labor which assumed charge of the system. Administrative divisions were created and a labor exchange was located in every important town. Close communication is maintained with the central office in London. The local offices function largely by means of advisory committees consisting of equal representatives of employers, employees, and the general public. The administrative machinery of British labor exchanges is thoroughly correlated with that of unemployment insurance. Transportation charges are sometimes advanced to workers in order to get them to places of employment.

Steps in the direction of public employment bureaus have been taken by Germany, Denmark, and other European countries. Indeed, the movement has progressed further in Europe than in the United States.

**29. Public Employment.**—The alleviation of the unemployed by utilizing them on public works is an old economic device. It was tried shortly after the revolution of 1848 in France. This experiment was widely heralded as an application of the public-work shops idea of the socialist Louis Blanc. As a matter of fact, it was merely an attempt to meet an unemployment crisis by keeping busy on public construction work those who would otherwise have been idle in the streets of Paris.

Public employment during periods of industrial depression not only gives jobs to those out of work, but also it has a stimulating influence on other industries. Thus to employ men on the construction of roads and buildings is also to create a demand for stone, cement, and structural steel. Its indirect influence in creating employment in allied private industries is as great as its direct influence. Society is the gainer, not only because of the lessened demands on charity, but also because of the economic savings resulting from having the work done in periods of low prices.

Public employment requires that public work be so regulated that it supplements, rather than competes with, the demands of private business.

In other words, public work is to be pushed when business is slack and to be deferred, as much as possible, when business is brisk. It assumes a long-run plan of socially desirable production for public consumption and not the making of work by employing men at unnecessary tasks. In the long run, public employment will not create work, because it merely substitutes the state for the private employer, desirable or undesirable as that may be. But in the short run, such as during a cyclical depression, when there is a "lump" of unemployed labor, public work can create employment. However, it should be regarded as the stabilizer of employment, rather than as the motor, as a reserve reservoir stored up for emergencies, rather than as the primary source of supply.

Unfortunately, most governments follow the example of private business. They spend and expand in periods of prosperity and retrench in periods of depression when taxpayers feel poor. The result is an accentuation of the business cycle instead of a modification of it. The enormous amount of public improvements which take place yearly can be seen by a glance at our Federal and state budgets or by totaling the recent bond issues of American cities. Although a certain proportion of these public improvements was needed immediately, a large number of them could have been deferred to a period of depression.

Another mistake of the past has been the failure to plan ahead for municipal, state, and Federal projects. If the comprehensive future planning of public works were done, the unemployed might be put to work in a more constructive and systematic fashion than at present. As a rule, American cities have not had their future development planned in advance. Like Topsy, they have just grown. It is not surprising, therefore, that the employment on public improvements of those out of work has not been very efficiently done, although it has alleviated temporary distress.

During the panic of 1908, several American cities used public improvement work as a means of alleviating unemployment. The same year the Socialist party wrote this principle into its party platform. In 1909, the English Parliament passed a development bill with this object in mind. An Idaho law of 1915 required county commissioners to provide emergency employment on public highways or elsewhere. In 1921, the state of California passed a law which provided for the extension of the public works of the state during periods of extraordinary unemployment caused by temporary industrial depressions. A similar law was enacted by the state of Wisconsin in 1923.

The British Labor Party went on record in 1918 in the famous report of its Committee on Reconstruction as follows:

It is the duty of the Government to adopt a policy of deliberately and systematically preventing the occurrence of unemployment, instead of (as heretofore) letting unemployment occur and then seeking vainly and expensively to relieve

the unemployed. It is now known that the Government can, if it chooses, arrange the Public Works and the orders of the National Departments and Local Authorities in such a way as to maintain the aggregate demand for labor in the whole Kingdom (including that of capitalist employers) approximately at a uniform level from year to year; and it is, therefore, a primary obligation of the Government to prevent any considerable or widespread fluctuation in the total numbers employed in times of good or bad trade.

The great depression of 1929 to 1933 resulted in a renewed interest in public work as an emergency measure, preferable to direct relief of the unemployed. The Roosevelt recovery program created the Public Works Administration. For more immediate needs, the Civil Works Administration was created. Finally, the Civilian Conservation Corps sought to recruit unemployed young men in our cities and to provide them with food and shelter, as well as a wholesome atmosphere and moderate discipline, while at work in our great forests. The success or failure of these hastily created bodies and of this whole emergency program must be evaluated in terms of the existing crisis. Looking back over the period, the student can see in bold relief the mistakes which were made, not only in this crisis but also before it, not only by the national government but also by state and local governments. When the depression descended upon us, the country was unprepared by the almost complete absence of prosperity reserves and of definite plans for future national and local development. Many large cities had already borrowed up to their legal limits in a previous orgy of spending. Some were financially and politically bankrupt. The nation itself had to create a new economic plan and a new political philosophy for the creation of emergency employment.

**30. Unemployment Compensation within Industry.**—One of the most hopeful signs of a new attitude toward the problem of unemployment and a very promising indication of what can be done toward its amelioration by private enterprise is the policy of unemployment insurance within industry itself. In the past, this was done in the absence of compulsory unemployment insurance. In the future, it may be done in addition to, or in lieu of, general unemployment insurance.

One common method of protecting the worker, in part, against the ravages of unemployment has been to guarantee him a minimum number of days' work throughout the year. Considerable progress in this respect was made by some of the clothing industries, which have been sorely vexed by the problem of seasonal unemployment. The stabilization of unemployment in the clothing industry has been dependent on the strength of organized labor in the needle trades, and on the policy of manufacturing clothing in large factories rather than in the homes of the workers. Trade agreements stipulating a given number of days' employment have been made by some highly unionized needle workers with



certain large manufacturers of clothing. The result was that these factories, making ready-to-wear garments, were forced to manufacture for stock to a greater extent than formerly. In many cases, the protection afforded the worker by these guarantees was backed up by an unemployment-insurance fund, contributed to jointly by employer and employees in the clothing industry.

William Procter of the soap-manufacturing company of Procter and Gamble took a great forward step when he guaranteed to his workers forty-eight weeks of employment throughout the year. Such a policy ordinarily was not difficult to carry out in the manufacture of such a staple as soap. However, the Dennison Manufacturing Company, maker of paper boxes, stationery supplies, holiday cards, tags, and various paper goods, was able to carry out a similar program in an even more difficult industry, characterized by irregular, seasonal, and changing demands. Before the great depression, this firm maintained the policy of paying to those workers who were temporarily laid off a large share of their regular wages, which came out of an unemployment fund built up out of a certain accumulated share of the profits of the business. The efficient, as well as humane, management of this firm succeeded in stabilizing production and thus reducing unemployment in numerous ways.

Certain firms attempted to ameliorate the hardships of unemployment by the payment of what is known as a "dismissal wage." If the employee was discharged through no fault of his own, but merely because of the lack of work, he received an unemployment bonus at the time of his enforced separation from the services of his employer. In order to pay adequate dismissal wages, a business organization must seek to regularize employment and to provide an unemployment reserve fund. The strain of unemployment generally comes in a period of business depression, when the firm is faced by a serious loss of profits and by the continuation of heavy fixed charges on idle equipment.

Except for the following pioneers, the Columbia Conserve Company, the Dutchess Bleachery, and the Dennison Manufacturing Company, employer unemployment-reserve plans are postwar developments. Their young lives were rudely threatened by the great economic depression from 1929 to 1933, which was so severe and so protracted that meager financial reserves, set aside in the few previous years, were entirely inadequate. Consequently, most private and voluntary plans of unemployment insurance collapsed in the great crisis, during which they were so sorely needed.

One of the most recent and comprehensive programs of private unemployment insurance, that of the General Electric Company, emerged in 1930 during the great depression. It permitted workers to elect or to reject entrance into the scheme. Insured workers were required to

contribute 1 per cent of their weekly wages, except when these should fall below half their average full-time earnings. In cases of emergency, the 1 per cent contribution might be taken off all wages and salaries, whether the individuals were insured or not. Employee contributions were to be matched dollar for dollar by the company. The benefits of this plan of unemployment insurance were designed to compensate only temporary layoffs. Those permanently discharged, either for cause or by a reduction of production, were not included. After a two weeks' waiting period, beneficiaries temporarily out of work were to receive 50 per cent of their full-time earnings not to exceed \$20 a week nor to extend at the utmost beyond ten weeks. The limitations of this plan of the General Electric Company are apparent. The depression had made necessary this effort toward practicability in reducing coverage and imposing restrictions, in order to preserve the solvency of the unemployment-insurance fund.

**31. Compulsory Unemployment Insurance or Reserves.**—The depression of 1929 to 1933 demonstrated the necessity, not only of a long-range planning of public works and a comprehensive system of public labor exchanges, but also of additional protection in the form of compulsory unemployment reserves or unemployment insurance. The limitations and failures of numerous private schemes point to the necessity of a stronger, more general, and more permanent program, involving governmental supervision and assistance. Nevertheless, unemployment insurance is still one of the most debatable forms of social insurance. It was not treated with other types in the last chapter but purposely deferred until after this discussion of the nature, types, and causes of unemployment.

Unemployment insurance is difficult to administer because of the ease of simulating unemployment. It is difficult to feign an industrial accident, old age, or even sickness, but it is not so difficult to pretend to be an industrious workman out of a job because of circumstances beyond one's own control. It is further contended that unemployment insurance will increase, rather than decrease, the amount of unemployment. If men are paid only when at work, they will shun idleness; but if they are paid when out of work, they will be relieved of the necessity of looking for another job. Hence many of them will remain in idleness. Bitter opponents of unemployment insurance have stigmatized it as a "dole system" and as "Caesar's bread," *i.e.*, as analogous to the free distribution of grain to Roman citizens which encouraged the indolence and dissipation of the proletariat of that ancient metropolis.

The friends of unemployment insurance reply that the amount which is paid to the worker who is unemployed is less than his regular wage, and that it is not sufficient to relieve him of the necessity of looking for work. Moreover, unemployment insurance is carefully correlated

with a system of public labor exchanges. Those who are receiving unemployment insurance are listed at the public labor exchange and are offered work when it can be found. Refusal to accept such work means the loss of unemployment insurance. Finally, unemployment insurance cannot be regarded as a dole, charity, or even as a pension system, if the employee, when at work, pays a premium each week out of his wages for unemployment insurance.

**32. Aims and Types of Unemployment Compensation.**—The aims of unemployment insurance, like those of any insurance program, are twofold—compensation and prevention. It will be remembered that unemployment in its strict sense refers to the enforced idleness on the part of the worker due to objective causes in the industrial system. Consequently, unemployment insurance attempts to alleviate the sufferings of the worker due to circumstances beyond his control. To a certain extent, any scheme of unemployment benefits, whether unemployment insurance or not, performs this object. But scientific unemployment insurance tends to reduce unemployment, as well as to compensate the unemployed. It lessens the total volume of unemployment in the same way that workmen's compensation laws tend to reduce the volume of industrial accidents. This second aim of unemployment insurance, however, will be accomplished only if the system is carefully administered. If improperly administered, it fails in this important objective. Hence it will increase rather than decrease unemployment.

Contributory unemployment insurance must be distinguished from a dole system. The latter consists of a contribution to individuals out of work, whereas the former is contractual in nature. Therefore, a dole is analogous to a pension, rather than to insurance.

Again, unemployment insurance must be distinguished from unemployment reserves for out-of-work benefits. Scientific unemployment insurance implies the existence of an actuarial basis. It assumes that the volume of unemployment in various trades has been carefully studied and that the relative risks of unemployment have been mathematically computed. Hence unemployment, like industrial accidents, becomes an insurable risk. The premium which is paid in any occupation depends not only on the wage received or the total wages paid, but also on the risk of unemployment in that particular occupation. Hence there will be an incentive to employers to reduce slack and busy seasons and to spread the volume of employment as evenly as possible throughout the year.

If no attempt were made to assess premiums in proportion to the dangers of various occupations, workmen's compensation laws would not have succeeded in reducing the volume of industrial accidents. So-called "unemployment insurance" has sometimes been operated at an equal cost to all employers and as a drain on the public funds,

rather than by putting its financial burden upon the backs of the irregular occupations. Such unemployment relief is hardly unemployment insurance, for there can be no scientific unemployment insurance without an actuarial basis.

**33. Ghent System.**—Although no nation had attempted unemployment insurance before the passage of the British National Insurance Act of 1911, several European cities had done so. Perhaps the most famous was the plan of the Belgian city of Ghent, commonly referred to as the "Ghent system." The most significant feature of this plan was that it was administered by the local trade unions. Indeed, this form of public unemployment insurance was little more than a municipal subsidy to the existing trade-union unemployment dues and benefits. This municipal contribution was justified on the ground that it relieved the drain on local charities and avoided their demoralizing effects on individual character. The administration of this unemployment insurance by the local unions, which contributed substantially to the fund, lessened its abuses by their individual members. Legislation putting these subsidies on a national basis was established by France, Norway, Denmark, and Belgium between 1905 and 1908.

**34. British Unemployment Insurance.**—Great Britain was the pioneer country in direct national unemployment insurance. Actuated by the existence of considerable poverty due to unemployment, the Poor Law Commission of 1909 recommended that Great Britain follow the example of continental countries in nationalizing the Ghent system. But it was evident that trade-union unemployment funds, even though government subsidized, would not reach the great masses which suffered from unemployment. Consequently, a national system of direct unemployment insurance was substituted.

The National Insurance Act of 1911 provided a system of unemployment insurance in certain trades and industries. Its coverage was limited to about two million wage earners. Its administration was correlated with the previously established labor exchanges. Each employer was required to make certain that every employee coming under the provisions of the new law had an unemployment card as well as a sickness card. Half the costs of the weekly stamps affixed to the unemployment card were borne by the employer and the other half deducted from his employees' wages. Benefits and premiums were small and the time limit was carefully restricted. It was hoped that public unemployment insurance would stimulate, rather than eliminate, unemployment benefits by trade unions and other voluntary organizations.

During the next ten years, British unemployment, particularly during the World War, was low and the insurance fund was prosperous, as compared with the following decade, during which British foreign trade fell off and the export trades languished.

**35. Postwar Changes.**—At the conclusion of the war, two out-of-work donations were made by the British government to take care of the temporary problems of demobilization and industrial readjustment. One was the granting of a free policy of unemployment insurance to each returned soldier. Although this measure, popular at the time, received later criticism, it was better than a soldier bonus. The other British out-of-work donation to civilians, directed especially at those formerly employed in war industries, was less justifiable and even more confusing. Its administration was so difficult and its effects were so disastrous that it was repealed the following year. Nevertheless, this temporary indiscretion was sufficient to affix the term “dole” to the entire unemployment-insurance scheme of Great Britain, which has been in force over twenty years.

These temporary postwar measures were replaced in 1920 by a comprehensive unemployment-insurance law, which extended the system to the entire industrial population. The general plan of the original act of 1911 was followed, but premiums and benefits were increased in proportion to higher costs of living. Additional amendments were made in 1924, 1927, and 1930, seeking to eliminate certain abuses which had crept into the system. Eligibility was limited by requiring proof of the payment of thirty weekly contributions in the previous two years as a prerequisite to the payment of out-of-work benefits. Evidence was now required that the individual had earnestly sought employment and that he belonged in the unemployed, rather than unemployable, group.

In the decade after the World War, acute unemployment in Great Britain became chronic. The number of individuals receiving out-of-work benefits continued in the millions. Moreover, the coverage of the original law had been extended. Although premiums had been increased, benefits likewise had been raised. Consequently, the insurance fund, which had been actuarially sound and financially solvent before the Armistice, was slowly undermined. Government subsidies were added, and emergency loans were made by the national treasury to the insurance fund until, by the summer of 1931, its indebtedness thereto was over 82 million pounds, a sum far greater than its immediate or remote capacity to repay.

The insolvency of the national insurance fund was one of many factors which contributed to Great Britain's departure from the gold standard in 1931. Drastic economies were made by the Labor government in a heroic effort to balance the national budget. In spite of a determined and organized opposition, the following changes were made in unemployment insurance. Weekly premiums of each of the three contributors, the employee, the employer, and the state, were increased by several pence a week. On the other hand, unemployment benefits

were reduced about 10 per cent. In the third place, numerous qualifications were added, particularly in the case of married women who had formerly held positions and who continued to receive out-of-work benefits. In the fourth place, a distinction was drawn between occasional and permanent unemployment by the provision that an unemployed individual might receive his benefit only to a maximum of twenty-six weeks in the year, after which he was to be drafted out of the insurance fund and into a new class known as the transitional, the whole of whose future unemployment benefits were to be paid by the state in an amount to be decided by public-relief policy, and not on a contractual basis. In other words, an attempt was made to distinguish between the unemployed and the unemployable, and between unemployment insurance and poor relief. As a result of this legislation, by March, 1932, over one million individuals, who had had no work in the six months following the passage of the new act, passed out of the benefits of unemployment insurance and into the transitional class, to be cared for by public relief.

### **36. Appraisal of British Experience with Unemployment Insurance.**

British unemployment insurance has been under considerable criticism at home and abroad. Labor leaders have contended that its benefits are inadequate and have sought to achieve increases or to prevent decreases in them. On the other hand, manufactures and employers have contended that the differential between unemployment benefits and market wages, particularly the wages of unskilled labor, has not been sufficient to induce men to work. They have felt that existing laws have increased, rather than decreased, unemployment and that they have raised costs of production to so high a level that competition with certain continental nations has been difficult, if not actually impossible.

The chief difficulty of the British system seems to lie in the fact that little distinction has been drawn among various occupations, and that little attempt has been made to base unemployment premiums on actual unemployment risks. The heavy burden of unemployment insurance has not been placed on the irregular trades, because these have been chiefly the languishing export industries. The absorption of their proper share of the huge cost of unemployment insurance would have raised their costs of production to a prohibitively high level in a highly competitive foreign market.

The extension of unemployment insurance in Great Britain was due to a postwar industrial crisis. Unemployment figures were in the millions and there was serious fear of a social revolution. Something had to be done immediately for the enormous number of individuals out of work. Consequently, the coverage of the British unemployment system was suddenly extended from two or three million to ten or twelve million. This emergency measure became, in modified form, a permanent measure, as the acute unemployment problem became chronic.

In spite of some mistakes in policy and errors in administration, the British system of unemployment insurance did perform certain social services. An enormous amount of human suffering was prevented and workers' standards of living were maintained. But the financial cost, especially to the British manufacturer, taxpayer, and general consumer, has been enormous.

Critics of British unemployment insurance point out that a new generation has grown up since the war, thousands of whom have been continuously idle ever since leaving school. Unfortunately, this allegation is true, but it must be regarded, not as an indictment of British unemployment insurance, but as the result of a general economic situation, which created a postwar national depression and a chronic problem of unemployment in Great Britain.

**37. Unemployment Insurance in Other Countries.**—The British experiment in national unemployment insurance stood alone for almost a decade, but in the postwar years several other countries followed her example. Beginning with Italy in 1919, the following European countries passed compulsory unemployment insurance laws: Austria in 1920, Russia in 1922, Poland in 1924, Bulgaria in 1925, and Germany in 1927. Queensland, Australia, in 1922, was one of the first non-European states to follow the example of the mother country.

Other European countries, including France, Belgium, Denmark, and Norway, had voluntary unemployment-insurance programs of limited scope even before the World War. In the postwar period, this partial step was taken also by Czechoslovakia, Finland, the Netherlands, and most cantons of Switzerland.

The most important continental example of unemployment insurance is Germany, who followed the British example in this form of social insurance, as she had been followed by Great Britain in sickness insurance. The Compulsory Insurance Act of 1927 provided for the complete nationalization of public labor exchanges. Its benefits were extended to nearly all manual laborers and to most non-manual workers of modest earnings. Profiting by British experience, however, the German law of 1927 excluded from unemployment insurance "casuals," *i.e.*, those workers whose employment lasts not more than twenty-six weeks a year. The care of this group of unemployable, partially employable, or chronically unemployed people was regarded as a problem of public relief, and not a responsibility of the unemployment-insurance fund, whose benefits were to be limited to the better class of workmen, who were able, as well as willing, to make substantial contributions to it in the form of fairly regular weekly premiums. Again, the German law of 1927 restricted the time of unemployment insurance to twenty-six weeks in any year, after which no more benefits were to be paid until after the completion of another qualifying period of twenty-six weeks of premium payments.

**38. American Experiments with Unemployment Reserves.**—The first step toward unemployment insurance in this country, as in Europe, was the out-of-work benefit paid by trade unions, but this program never developed so widely in the United States nor did it receive governmental subsidy. On the other hand, a number of individual employers, independently or in cooperation with trade unions or company unions, have attempted programs of unemployment benefits. One of the most recent developments has been the Rochester plan, which represented the cooperation of a number of employers in diversified fields of production in the same community.

The first American law for compulsory unemployment reserves and compensation was passed by Wisconsin in 1932. This bill followed, in general, Professor Commons' so-called "American plan" of compulsory unemployment reserves, in contrast to the European plans of unemployment insurance. It required contributions only from employers, rather than joint contributions from both employers and employees, subsidized more or less by the state. Thus the American plan implied the specific responsibility of management to provide either steady work or compensation for irregularity. It did not view unemployment either as a joint responsibility of both employers and employees or as a general responsibility of society as a whole.

Again, the American plan, illustrated by the Wisconsin law, provided that each company build up its own unemployment reserve, with liability limited to its own workers, in contrast to the European system of pooling unemployment premiums in a common fund. This newer plan was designed to increase the employer's individual initiative in regularizing employment in every possible way. Perhaps this is fair, in so far as casual, and even seasonal, unemployment is concerned, but many students feel that cyclical and technological unemployment is society's responsibility, general costs of public indifference or social progress, rather than of individual company or plant inefficiency.

The Wisconsin law went into effect July 1, 1933, except for those employers who, by June 1 or previously, had established satisfactory plans of their own. The law covers employees of all establishments employing ten or more persons in Wisconsin for four months or more during the preceding calendar year, except agricultural workers, domestic servants, and other excluded groups.

Each employer, subject to this law, must normally contribute 2 per cent of his payroll into an unemployment reserve, to be deposited into a central state depository, where it will be kept liquid in the form of cash or government securities. Each employer's account is kept separate; and when it reaches a total of \$55 per employee, the rate of contribution decreases from 2 to 1 per cent of the payroll. After reaching \$75 per employee, the contribution temporarily ceases.



After reserve funds have accumulated for a year, unemployment benefits become payable in proportion to wages and previous service of unemployed workers. Weekly benefits are limited to 50 per cent of weekly wages with a \$5 minimum and a \$10 maximum. Part-time workers can claim the difference between their part-time wages and unemployment benefits. Each worker is entitled to compensation at the rate of one week of unemployment benefits to each four weeks of employment during the past year up to an annual maximum of ten weekly benefits. Each company's responsibility in the payment of unemployment benefits is limited by its accumulated reserves. A worker employed by several companies collects from his last employer first, and so on, but not extending beyond the past six months. A waiting period of two weeks is required before the payment of unemployment benefits.

Eligibility for unemployment benefits is rigorously limited under the Wisconsin law, which seeks to cover only the unemployed and not the unemployable group. Even an unemployed worker, supposedly able and willing to work but unable to find employment, is regarded as ineligible if he has been discharged for good cause, has quit voluntarily, refuses to work because of an existing trade dispute, has received \$1,500 or more previous to his unemployment, is ordinarily self-employed, or refuses suitable near-by employment for which he is reasonably fitted. But, as in the case of the British worker, the unemployed Wisconsin worker is not compelled to accept employment, nor does he forfeit unemployment benefits, by refusing to take employment either "in a situation vacant in consequence of a stoppage of work due to a trade dispute" or "if the wages, hours, and conditions offered be not those prevailing for similar work in the locality, or such as tend to depress wages and working conditions." In other words, the unemployed worker is not required to act as a strike breaker, even though he may lose his out-of-work benefits by going on a strike. Neither is he compelled to take employment in a sweated occupation.

The great depression of 1929 to 1933 aroused the United States to the realization that industrial security was a paramount necessity. With the number of unemployed between twelve and thirteen millions, many felt that, if jobs were impossible and relief were denied, violence might take place. America, previously indifferent to, or critical of, British unemployment insurance, now began to feel that it might be preferable to revolution. The former choice had been between unemployment insurance and charity. After the emergency legislation of the first year of the Roosevelt recovery program had been completed, the President announced that his next major project would be a comprehensive system of social insurance, making some provision for the protection of workers against unemployment.

**39. Summary.**—Unemployment is enforced idleness on the part of the worker due to no fault of his own but to objective causes in the economic environment. The unemployed are to be distinguished from the unemployable. Irregular employment and underemployment are special phases of the general unemployment problem. The various types of unemployment have been classified as casual, seasonal, cyclical, and technological unemployment.

Unemployment is a chronic, as well as an acute, problem of industry. Although varying in intensity from place to place, and from time to time, there seems to be a persistent and continuous problem of unemployment which never entirely disappears. Moreover, in spite of cyclical fluctuations, there seems to have been for the past decade a secular trend of the volume of production to outrun the volume of employment.

Although unemployment is costly to employers and to society in general, its chief burden falls on labor. These baneful effects of unemployment on the worker are both material and psychological.

Unemployment is due primarily to a lack of perfect adjustment in the demand for and in the supply of labor. This arises from the complexity of modern industrial society which is characterized by extreme specialization, the use of machinery, and capitalistic or roundabout production. Specific causes of unemployment are changes in methods of production, changes in the wants of consumers, seasonal occupations, the business cycle, industrial conflicts, and changes in the tariff and international trade.

The labor reserve is a human reservoir from which industry draws its workers whenever necessary. Unfortunately each industry, locality, or business organization has tended to build up its own labor reserve. Again, modern industrial organization is characterized not only by a large body of irregularly employed workers, but also by a great army of migratory labor. The seasonal character of numerous occupations is the chief cause of migratory labor.

Labor turnover is the opposite of continuity of employment within a given business organization of a given group of workers. Labor turnover is due to a general layoff of all workers, a discharge of particular workers, or a voluntary quitting of individual workers. An excessive labor turnover is costly to industry and demoralizing to the workers.

The alleviation of unemployment by philanthropy is a poor substitute for the right to a job. A scientific, rather than an emotional, approach to the problem consists of an analysis of the causes of unemployment and their removal so far as possible.

There are many ways by which unemployment can be reduced by private enterprise. The greater standardization of goods and the increased stabilization of demand will help materially. Manufacturing for stock and in anticipation of demand will naturally follow. Again, the dovetailing of seasonal industries, wherever possible, will help still

further to reduce unemployment. In brief, the scientific management of industry and the more intelligent planning of our productive process represent the chief methods of approach.

There are several ways by which the state can reduce unemployment and care for the unemployed. In the first place, public labor exchanges help to bring together the manless job and the jobless man. In the second place, the better distribution of public work will help to reduce unemployment. This should be curtailed in periods of prosperity and increased in periods of depression, rather than undertaken indiscriminately throughout all phases of the business cycle. In the third place, there is the possibility of unemployment insurance.

Unemployment insurance is neither a pension system nor a dole, if it is contributory rather than gratuitous. Compulsory in character and extensive in its coverage, unemployment insurance is always supervised by the government. Sometimes it is administered and subsidized by the state. Scientific unemployment insurance is on an actuarial basis; *i.e.*, the rate of premium is proportionate to the risk of unemployment. In this way the burden is placed on the backs of the irregular trades.

Great Britain has had a longer and more extensive experience with unemployment insurance than any other important nation. The state of Wisconsin in 1932 passed a law which made mandatory the creation of unemployment reserves.

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### Questions for Discussion

1. Define unemployment.
2. Differentiate between the unemployed and the unemployable.
3. Explain what is meant by the incidence of unemployment.
4. Differentiate between unemployment as an acute problem and unemployment as a chronic problem of industry.
5. Outline the social costs of unemployment.
6. Outline causes of unemployment in the physical, social, and political environments.
7. Explain unemployment as a maladjustment in the demand for and the supply of labor.
8. Outline concrete causes of unemployment in our economic organization.
9. Suggest remedies in each case.
10. What is a labor reserve and how can it be decreased?
11. Show reasons for the existence of migratory labor and the dangers of this situation.
12. Discuss public improvements as a scientific relief measure for the problem of unemployment.
13. What are some advantages and disadvantages of public employment bureaus?
14. What do you consider the essentials of scientific unemployment insurance?
15. Do you regard the experience of Great Britain as successful? Why or why not?
16. In the long run, has unemployment been increasing in the United States? If so, how much and why?

17. Show the effects of the last three business cycles on the amount of unemployment.

**Topics for Investigation**

1. The exhaustion of free land and the problem of unemployment in America.
2. Unemployment and the business cycle.
3. The dovetailing of seasonal industries.
4. The machine and the problem of unemployment.
5. Unemployment and changing fashions.
6. The reduction of the labor reserve for unskilled labor.
7. Public employment bureaus in America.
8. Public employment bureaus in Europe.
9. Unemployment and the demands on charity.
10. Public workshops in France during the revolution of 1848.
11. The postwar unemployment problem of Great Britain.
12. Unemployment insurance on the continent of Europe.
13. The American plan of unemployment reserves.
14. President Roosevelt's social-insurance program.
15. The Wisconsin law on compulsory unemployment payments and reserves.

## CHAPTER XI

### WOMEN AND CHILDREN IN INDUSTRY

#### PROBLEMS OF EXPLOITATION

**1. Early Conditions in England.**—The industrial revolution in England was attended by many unfortunate features, chief among which was the problem of the exploitation of women and children in industry.

Children eight years of age, and indeed younger, toiled in the early factories. One of the worst features was the apprenticeship of the children of pauper parents into what was virtually a juvenile white slavery. These children were abused and driven to their work which often lasted 12 hours a day. They were given food of the coarsest kind and housed in bleak uncomfortable barracks. In some cases, the children went to work in two shifts, so that the beds of these little workers never became cold. Accidents were frequent, disease was common, and excessive toil soon put an end to their unhappy lots.

A parliamentary investigating committee discovered equally bad conditions in the mines, where little children had been utilized to drag coal cars through narrow underground passages. Women and men worked side by side, sometimes almost naked, in the damp unwholesome shafts of the mines. The mere recital of these facts in testimony made unnecessary any discussion about the desirability of reform in mining conditions.

**2. British Legislation.**—Fear of the physical degeneracy of the working population finally overcame the prevailing *laissez-faire*, or let-alone, philosophy. The first British factory legislation, known as the Health and Morals Act of 1802, put a 12-hour limit to the work of children in the cotton mills.

In spite of the opposition of the manufacturing group, a famous factory law was passed in 1833, the year following the Great Reform Bill of 1832. It provided that no children under nine years of age might be employed, and those from nine to thirteen years of age might work only 8 hours a day. Young persons from thirteen to eighteen years of age might not work over 12 hours a day, and none of these hours could be at night.

The British Half Time Act of 1844 put women workers in the same category as young persons and applied to them the same restrictions as to hours of work. A corps of inspectors was created and factory inspection

became a reality. The next factory act was that of 1847, which limited the work of women to 10 hours a day. Since it was unprofitable to work the factories without women and children, the 10-hour day gradually became a reality for men, as well as for women and children.

A law, passed in 1842, regulated working conditions in the mines. It prohibited all underground work by females and by boys under thirteen years of age.

Subsequent legislation raised still further the standards of child labor in Great Britain. An act of 1920 proscribed child labor and instituted an 8-hour day for young persons.

**3. Situation in America.**—The development of the factory system in the United States produced conditions similar to those of England. The beginning of the textile industries in New England was accompanied by the problem of women and children in industry, but on a smaller scale. Idleness had no part in Puritan traditions, and a century ago it was regarded as philanthropic to give work to women and children in the new factories. Alexander Hamilton and other early protectionists made use of this argument in their plea for the establishment of manufacturing in America.

The development of manufacturing in this country was accompanied by the employment of children under sixteen years of age for 12, 13, and even 14 hours a day. But the situation gradually improved because of remedial legislation in many of the states of the industrial East and Northeast. Nevertheless, this amelioration was sporadic, for the United States, unlike Great Britain, is a Federal government, and the matter of child-labor legislation is within the province of the individual states. With the recent growth of an industrial South, the evils of child labor have appeared in this new manufacturing section. Again, much raw cotton is still picked by women and children, for these problems are agricultural as well as industrial.

**4. World-wide Aspects of Problem Today.**—The problem of child labor today is no longer an English or an American problem. It has become a world problem. The United States, Germany, and, still more recently, Japan have become industrialized. Moreover, cotton factories and other manufacturing industries are now springing up in India, Egypt, and China, as well as in many of the smaller states of Europe. Very often there is neither legislation nor an enlightened public opinion to interfere with the exploitation of the human, as well as the natural, resources of these countries. Recent observers in the Orient report that child-labor conditions there can be found to parallel those in England a century ago.

**5. Nature and Extent of Child Labor.**—Child labor may be defined as the work of children under conditions that interfere with the physical development, education, and opportunities for recreation which children



require. It is the working of children at unfit ages, for unreasonable hours, or under unhealthful conditions. For statistical purposes, child labor may be regarded as the gainful employment of persons between ten and fifteen years of age.

A. ABSOLUTE AMOUNT OF CHILD LABOR      B. PERCENTAGE OF POPULATION 10 YEARS TO 15 YEARS OF AGE

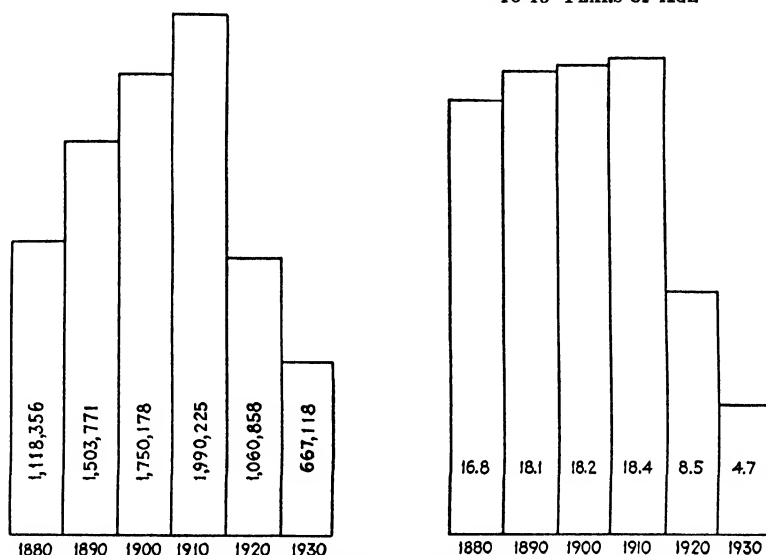


CHART 40.—Child labor (1870 to 1930). (Prepared from U. S. Census figures.)

For many reasons it is extremely difficult to estimate the amount of child labor. The number of children reported legally at work varies greatly from the number of children actually at work. Hence official

CHILDREN FROM TEN TO FIFTEEN YEARS OF AGE GAINFULLY EMPLOYED FROM 1880 TO 1930

Year	Number gainfully employed	Percentage of population 10 to 15 years of age
1880	1,118,356	16.8
1890	1,503,771	18.1
1900	1,750,178	18.2
1910	1,990,225	18.4
1920	1,060,858	8.5
1930	667,118	4.7

reports are apt to underestimate the amount of child labor. The problem of child accounting is complicated also by the existence of part-time work, including both agriculture in the country and street trades in our

cities. Finally, state laws differ and the efficiency of their departments of factory inspection and compulsory school attendance vary widely.

Prior to 1870, no adequate statistics concerning child labor existed, but in that year, as well as in every decade since then, the U. S. Census Bureau has attempted to enumerate the number of children, particularly those between ten and fifteen years of age, who have been gainfully employed. Although recent figures are more accurate, early returns were very meager. Hence the apparent increase in child labor from 1880 was, in part, a result of better investigation and more complete records.

The table on page 319 gives the number of children gainfully employed and their percentage of the total population from ten to fifteen years of age according to the United States census reports for the last half century, *i.e.*, from 1880 to 1930. Chart 40A shows graphically the changes in absolute numbers and Chart 40B the changes in percentages.

The number of children gainfully employed rose steadily from slightly over a million in 1880 to almost two million in 1910. Although the absolute number of employed children almost doubled in this generation, their ratio to the entire number of children in the same age group in our total population increased only slightly, to a degree so small that it may be explained in terms of a more complete recording. Hence it seems safe to conclude that the proportion of child labor remained fairly constant from 1880 to 1910, although absolute numbers rose markedly.

A great decrease in child labor has taken place within the last twenty years. The number of employed children under fifteen years of age fell by almost 50 per cent in the decade from 1910 to 1920, and again by almost 50 per cent in the following decade from 1920 to 1930. This represents a reduction in absolute numbers of children gainfully employed from almost 2,000,000 in 1910 to a little over 1,000,000 in 1920 and 667,000 in 1930. The percentage of the total child population declined from 18.4 per cent in 1910 to 8.5 per cent in 1920 and to 4.7 per cent in 1930.

This decline in child labor has been due to the development of public sentiment against it and to the passage of numerous state laws increasing compulsory school attendance and the age at which working papers can be issued. However, both 1920 and 1930 were depression years in which the total volume of employment fell off. Hence the decline of child labor, as shown by these census figures for the past two decades, may have been exaggerated.

In any event, the 1930 census indicated 667,118 children between ten and fifteen years of age as gainfully employed. Of this number, about two-thirds were boys and the remaining one-third were girls. The actual number of employed children between these ages was probably greater than the returns indicate. Of course, the amount of child labor would be swollen far beyond this estimate if part-time work of school children

were included, or if the age limit were extended to eighteen or even to sixteen years.

**6. Occupations and Earnings of Children.**—The character of child labor can be seen by a study of the occupations in which it has played a considerable part. It may be said that children have entered almost any industry from which they were not excluded by law, and in which their unskilled labor and limited physical strength could be exploited.

Occupations of children can be divided into five major groups, which, listed in order of their relative numerical importance, are (1) agriculture; (2) manufacturing; (3) trade; (4) domestic and personal service; and (5) clerical occupations. Agriculture claims a decreasing portion of the decreasing number of gainfully employed children, for 61 per cent were so employed in 1920 as compared with 45 per cent in 1930. The percentage of children gainfully employed in manufactures, but not their absolute number, increased from 17 per cent in 1920 to 22 per cent in 1930. Although their total number decreased, the relative portion of children employed in trades, domestic and personal service, and clerical occupations remained fairly constant from 1920 to 1930, in which year each of these three groups comprised from 8 to 10 per cent of all gainfully employed children.

Children of the cities have been employed chiefly in department stores and mills, where employment certificates are generally required. On the other hand, children do a considerable amount of labor of which there is no record. Some of this is legal, but much is illegal. Thus industrial home work or the sweatshop claims many children who are unable to obtain employment certificates to work in factories. Again, the number of children in agriculture is far greater than the recorded number. Street trades, such as those of newsboys and bootblacks, are also hard to regulate or to eliminate. Part-time employment and the unrecorded, if not illegal, employment of children in numerous other occupations make the problem of child labor of far greater magnitude than the census figures indicate.

All studies of child labor reveal the fact that the earnings of children have been pitifully small. Except for the war period, most averages were from three to five dollars a week. This seems hardly sufficient to supplement the family income to any great extent, or to warrant the loss of educational opportunity which is involved.

**7. Causes of Child Labor.**—The minute subdivision of labor which accompanied the introduction of machinery lessened the need for craftsmanship. Little strength or intelligence is required to feed and tend many machines in the modern factory. Hence this labor can be performed by children. Moreover, such labor is generally plentiful and cheap.

An indifferent public opinion is a second factor. Although cheap goods take a fearful toll in the health and welfare of workers, they can

easily be sold. Organizations, such as consumers' leagues, have inaugurated a campaign of popular education to inform the public as to the social cost of certain commodities. It maintains an honor list or white list of firms whose working conditions are satisfactory and which, therefore, warrant public patronage.

A third factor in the problem of child labor is the necessity for self-support. Poverty is a cause which demands that the child's pitifully small wages supplement the family income, even to that small degree.

In the fourth place may be mentioned an unsatisfactory educational system. The child may be glad to leave school as soon as he is permitted to do so by the compulsory school law. Discipline is necessary, but it may be found irksome. The subjects taught may be neither practical nor interesting. The modern school, however, is providing a curriculum sufficiently diversified to appeal to the needs and capabilities of various groups of children.

**8. Effects of Child Labor.**—The effects of child labor may be grouped in a threefold division: first, effects on the child; second, effects on society; and third, effects on industry. Of course, all these are overlapping and interdependent.

The physical effects of child labor are often bad. Childhood is the period of physical growth which requires an abundance of fresh air, freedom, and activity. The monotony of repeated operations of the same character is a poor substitute for the self-expression of play and the intellectual training of the school. Again, the moral atmosphere of the working child is sometimes unwholesome. At best, child labor is apt to stunt the physical, intellectual, and moral growth of the individual child.

Child labor and illiteracy are social twins, for they increase or decrease together. The decrease in child labor from 1920 to 1930 was accompanied by a decrease in the illiteracy rate from 6 to 4 per cent of our population. But even in 1930, the number of illiterates in the United States was over four million.

The effects of child labor on society are injurious. It tends to break up family life by removing the child from his normal and proper place in the home. The young wage earner may become independent of parental authority. At best, his opportunity to rise out of a blind-alley job is limited, and he gradually becomes accustomed to low wages and low standards of living. It must be remembered that the present army of child workers are destined to become the fathers and mothers of the next generation.

In the last place must be considered the effects of child labor on industry. In the long run, it is not always the cheapest from the economic, as well as the social, point of view. It lowers the efficiency of the worker, because a dollar earned before the age of fourteen must be subtracted

several fold from later earning capacity. Moreover, the labor of children is wasteful and dangerous. Their inefficiency is a frequent source of both human and economic loss. In conclusion, little can be said to justify the existence of child labor in any enlightened community.

**9. Development of State Legislation.**—The first attempt at anything like child-labor legislation in the United States was made by Massachusetts in 1836, when a law was passed providing for the instruction of children employed in factories. It is significant that the motive of this early child-labor legislation was educational rather than one of health or recreation. In 1842 the working day for children in the factories of that state was limited to 10 hours a day. This law applied to children under fourteen years of age in the cotton and woolen mills and to children under sixteen in other manufactures.

A number of states had child-labor laws on their statute books by the time of the Civil War. For the most part, however, these laws were unenforced or unenforceable. There was generally no effective system of factory inspection, and only known violations were punished.

After the Civil War, the state of Massachusetts again took the lead in the matter of child-labor legislation with the passage of the laws of 1866 and 1867. Manufacturing industries were forbidden to employ children under ten years of age, and children from ten to fifteen years of age might not be employed for more than 60 hours a week, *i.e.*, for more than 10 hours a day. A fairly adequate system of factory inspection was provided, as well as penalties for violations of the law. A minimum of schooling also was required of all children.

The real impetus for the adequate legal protection of children at work in factories did not develop until the opening of the present century. In 1903, Illinois passed a pioneer child-labor law which marked the opening of a new era in child-labor legislation. This law prohibited children under fourteen years of age from working in factories and insisted that they remain in school until that age. The example of Illinois was soon followed by other states, and child-labor legislation in the United States was raised to higher levels than ever before.

**10. Later Standards of Child-labor Legislation.**—Although all states now have laws on the subject of child labor, they vary greatly in the adequacy of their provisions and in the stringency of their enforcement. In most states, the minimum age of employment has been raised to fourteen years, but there are numerous exceptions and loopholes in the laws of some states. A common exception is that made in the case of paupers or children of paupers. Again, there are many laxities in the enforcement of existing laws in some states.

Before the industrial codes of 1933, over half the states had 8-hour laws for working children or young persons whose ages were just above the legal limit. About one-quarter of the states had approximately

9-hour laws, and the remaining quarter of the states permitted 10 hours or more per day for young persons. In some states of the new industrial South, it was legal for children to work 11 and 12 hours a day, and even at night.

Only one-quarter of our states had laws for the regulation of street trades of children. The laws of most states are still especially weak in their provisions concerning the employment of children in agriculture and domestic service. The enforcement of adequate child-labor standards is more difficult in agriculture, domestic service, and the street trades than in manufacturing and mercantile establishments.

Almost a score of states still have no educational requirement for children leaving school, and only a dozen states now insist on the completion of the elementary school before the issuance of working papers. The development of compulsory-school laws, however, has made great inroads on child labor in most states.

The standardization of child-labor requirements was difficult, because this legislation was within the province of the individual states. A National Child Labor Committee, however, was organized in 1904. It urged reform and suggested model laws for enactment by the various states. The creation of a Federal Child Labor Bureau was another great step forward. A happy omen for the future was the still more recent proposal of a Federal child-labor amendment.

**11. Essentials of Child-labor Legislation.**—In spite of the absence of uniformity in various states, it is apparent to students that there are some fundamentals in all satisfactory child-labor laws. Numerous welfare bodies have attempted to standardize these various requirements and to draft model child-labor laws in conformity therewith. Such laws must be clear and specific in language. (Moreover, they must provide an effective machinery for the enforcement of their various provisions. A salaried corps of inspectors should be created with power to prosecute violations of the law. While many employers seek to cooperate in enforcing the law, others have been guilty of secret evasion or open violation.)

It was generally agreed that a model child-labor law should cover certain well-defined points. The maximum working day should be one of 8 hours. Night work should be prohibited and a closing hour fixed. The minimum age at which a child should be permitted to work should be fourteen years. No exception should be made in the case of children of pauper parents. Children employed between the ages of fourteen and sixteen years should have duly signed working papers. State laws on child labor should be correlated with those on compulsory education.

No child should be permitted to enter dangerous trades which should be carefully specified in the law. Working conditions of all young persons should be regulated carefully in the interests of their

safety and health. No youths in their teens should be permitted to work more than 8 hours a day.

**12. Federal Legislation against Child Labor.**—It was found impossible to bring all states up to uniformly high standards of child-labor legislation. Hence various civic associations began to agitate for Federal legislation on the subject.

In 1916, there was passed a National Child Labor Act which was to become effective for the entire United States on September 1, 1917. A year was given to employers to make readjustments necessitated by this law. The new law taxed all goods in foreign and interstate commerce from mines or quarries employing children under sixteen, or from manufacturing establishments employing children under fourteen, or employing children under sixteen for more than 8 hours a day or for more than 6 days a week, or in the evening hours.

This law did not accomplish the desired results because it applied merely to industries producing for foreign and interstate commerce. Moreover, the law had not been in operation for a year when it was declared unconstitutional by the Supreme Court<sup>1</sup> on June 3, 1918. Although four of the judges dissented, it was held by the court that this national child-labor law was an undue extension of the interstate-commerce powers of Congress, which could not be used to prevent child labor within the individual states. The effect of this decision was a general lowering of child-labor standards throughout the country.

Indefatigable enemies of child labor did not abandon their fight for a national law but sought new legal grounds. It was planned to formulate a new Federal child-labor law, based on the Federal taxing power. Thus the revenue act of 1918, approved February 24, 1919, provided for a profits tax on products of child labor. A tax of 10 per cent was laid on the net profits of mines, mills, canneries, etc., employing children under fourteen years of age and in violation of the conditions laid down in the act. These conditions were similar to those of the previous Federal child-labor act.

The second Federal child-labor law was as ephemeral as the first. Judge James E. Boyd, of the Western District of North Carolina, whose decision against the first Federal child-labor law had been sustained by the Supreme Court of the United States, rendered a similar decision against the second Federal child-labor law. He similarly objected that such a law was an interference with the sovereign rights of the individual states, which were within their residual constitutional rights in regulating child labor within their own boundaries as they saw fit. The legal correctness of this decision was attested by the fact that it was again upheld by the Supreme Court,<sup>2</sup> which declared in May, 1922, that the

<sup>1</sup> *Hammer vs. Dagenhart*, 247 U. S. 251, 1918.

<sup>2</sup> *Bailey vs. Drexel*, 42 Supreme Court, 449, 259 U. S. 20, 1922.

second Federal child-labor law was an undue extension of the Federal powers of taxation. These judicial decisions were received unfavorably by labor organizations and by enlightened public opinion.

**13. Proposed Child-labor Amendment.**—As there appeared to be insuperable constitutional obstacles to a Federal child-labor law, the only legal redress for this problem seemed to lie in the passage of an amendment to the Federal Constitution. Consequently, a child-labor amendment was drawn up and passed by both houses of Congress with the necessary two-thirds vote in 1924.

The proposed child-labor amendment is only an enabling measure, by virtue of which the Congress may, if it so desires, pass a child-labor law. Although the proposed amendment limits the authority of individual states in this regard, it does not prevent them from passing their own laws on the subject of child labor. It is unlikely that any child-labor law which might be passed by Congress would be extreme in its provisions. Reformers hope merely to standardize child-labor legislation and to provide a legal *dead line* in the sense of a minimum standard for conditions of child labor throughout the country. Child-labor laws of many progressive states would probably continue to be in advance of these minimum Federal requirements. The text of the first two sections of the amendment reads as follows:

*Section 1.* The Congress shall have power to limit, regulate, and prohibit the labor of persons under eighteen years of age.

*Section 2.* The power of several states is unimpaired by this article except that the operation of State laws shall be suspended to the extent necessary to give effect to legislation enacted by the Congress.

It does not follow from these provisions that a Federal child-labor law, passed by Congress under this enabling amendment, would extend to the outside age limit of eighteen years, which was specified as the limit beyond which no Federal child-labor law could go.

The great expectations of labor leaders and social reformers were not realized, for public inertia and private prejudice alike worked against the adoption of the proposed child-labor amendment. In the following decade the legislatures of a half dozen states, all in the West, ratified this amendment and the legislatures of between twenty and thirty states definitely rejected it. The latter included great industrial states like Pennsylvania and Connecticut, a textile-manufacturing state like North Carolina, and agricultural states like Kansas, Iowa, Florida, and Utah. Even Massachusetts, the mother of child-labor laws, rejected the proposed child-labor amendment.

The great economic depression of 1929 to 1933 drew public attention to the problem of child labor, not so much because of its evil effects



on children as because of its supposed displacement of adult workers. In 1930, over a half million children of fifteen years of age or younger were gainfully employed at the same time that millions of grown men were out of work. Consequently, public sentiment against child labor, which had lain dormant since the passage by Congress of the child-labor amendment in 1924, awoke from its indifference about a decade later.

**14. Child Labor Restricted in Industrial Codes.**—The National Industrial Recovery Act was one of the first fruits of the Roosevelt administration. As indicated before, this law empowered the President to approve for, or to impose upon, each trade association an industrial code. Most of these codes contained restrictions against child labor. The blanket code for all recalcitrant or hesitant industries, issued in the summer of 1933, made it illegal to employ any person under sixteen, except that persons from fourteen to sixteen might be employed outside mechanical or manufacturing industries for not more than three hours a day between 7 A. M. and 7 P. M. in such hours as would not interfere with school work.

**15. Women in Industry Compared with Child Labor.**—The problem of women in industry is not new, because women have always been important in economic production. The early development of the arts, such as the manufacturing of pottery and the weaving of textiles, was largely woman's share in primitive culture. The new feature is merely the employment of women outside the home.

When the industrial revolution brought an end to manufacturing by hand under the former domestic system, women, as well as children, became workers under the new factory system. The economic causes of women's entrance into industry were often the same as those affecting children, and the social consequences were somewhat similar.

From the standpoint of society, the effect on family life of the employment of women may be unfortunate, especially in the case of mothers forced to leave small children. An important social function of the family is that of socialization or the preparation of children for their larger life in society. This cannot be accomplished in a family life disrupted by the absence of the mother or children from the home. Mature women cannot be denied their right to independence and self-support, however, for the women-in-industry movement is but a part of the larger field of political and economic equality into which they have entered. Nevertheless, it is necessary to protect women in the exercise of their new freedom. Therefore, laws have been passed to regulate the industries into which women may enter, so that their surroundings may be healthful and sanitary.

For physiological reasons the efficiency of women in certain industries is not so high as that of men, although in other kinds of work women may

surpass men. Again, women's health and vitality are more seriously impaired by the strain of industry than are those of men.

The wages of women, like those of children, have often been pitifully small, for until recently they have generally been unorganized and in an unfortunate bargaining position. Again, the police power of the state has been used to justify legislation on the behalf of women as well as children because of the unfortunate social consequences of their industrial exploitation. Moreover, there exists as great a discrepancy in the laws of various states concerning the labor of women as of children. Similarly, the courts have declared unconstitutional many laws designed to protect them.

**16. Increasing Number of Women in Industry.**—The growing number of women in industry can be seen from the following figures from the United States census. It gives the approximate number of women gainfully employed, their percentage of the total number of women of ten years of age or more in the general population, and their percentage of the total number of all individuals gainfully employed for the past half century.

WOMEN GAINFULLY EMPLOYED<sup>1</sup>

Year	Number of women gainfully employed (10 years of age and over)	Per cent of women in population (10 years of age and over)	Per cent of all gainfully employed
1880	2,647,000	15	15
1890	4,005,000	17	17
1900	5,319,000	19	18
1910	8,076,000	23	21
1920	8,550,000	21	21
1930	10,752,000	22	22

<sup>1</sup> United States Bureau of the Census, *Census of Occupations, Abstract Summary, 1932*, pp. 3-5.

The absolute number of women gainfully employed and their ratio to both the total number of women in the general population and the total number of all individuals gainfully employed increased steadily from 1880 to 1910. The increase in the number of women gainfully employed in each of these three decades was almost 50 per cent, which was far greater than the rate of increase of either the total female adult population or the number of all persons gainfully employed.

The steady and rapid increase in the number of women gainfully employed slowed down in the decade from 1910 to 1920. The number of women gainfully employed increased by less than a half million, or by a rate of slightly less than 6 per cent, in this ten-year period, barely keeping up with the increase in total number of gainfully employed, and falling slightly behind the increase of women in the general popu-

lation. This relatively slow rate of increase in women gainfully employed from 1910 to 1920 may have been due to the depression of 1920. But a better explanation seems to be the return of our troops and their replacement in industry. Public sentiment in 1919 favored a job for the returned veteran, even at the expense of the woman in industry.

The increase of women in industry, slowed down temporarily from 1910 to 1920, was accelerated in the following ten years. The number of women gainfully employed increased by over two millions or by over 25 per cent from 1920 to 1930, which was more rapid than the increase of women in the general population or the total number of individuals gainfully employed. Perhaps this growth of women in industry in the past decade was even greater than these figures indicate, for the census year of 1930 came in a still greater business depression than that of 1920.

In 1930, almost eleven million women were gainfully employed out of a total of about sixty million women of ten years of age or more in our general population and out of a total number of almost fifty million gainfully employed individuals, men as well as women. In other words, one woman in every five was gainfully employed and one wage earner out of every five was a woman.

**17. Married Women in Industry.**—The growing tendency of women to remain in industry or business after marriage can be seen from the following table, also prepared from returns of the United States census.

MARRIED WOMEN GAINFULLY EMPLOYED

Year	Number of married women employed	Per cent of total number of married women in population	Per cent of total number of women gainfully employed
1890	515,260	4.6	13.9
1900	769,477	5.6	15.4
1910	1,890,661	10.7	24.7
1920	1,920,281	9.0	23.0
1930	3,071,302	11.7	28.9

It would seem that the number of married women gainfully employed in 1930 was six times as great as in 1890. There was a 60 per cent increase in the decade from 1920 to 1930. The number of married women employed quadrupled from 1900 to 1930, whereas the number of all women employed merely doubled in the same thirty years. The number of married women employed increased far more rapidly than the total number of married women in the general population.

The same general movements described in the last section are evident, a steady increase to 1910, a slowing up from 1910 to 1920, due perhaps to a temporary postwar replacement of women by men, and then an acceleration of the increase from 1920 to 1930. It is evident then that not only

are more women and a greater proportion of them gainfully employed than a generation ago, but also a greater number and proportion of them are retaining their positions after marriage.

It was formerly said that women were merely loaned to industry and eventually found their rightful places in the noblest of all occupations—that of home making. But these statistics make such a statement obsolete or false. If women are merely loaned to industry, these loans have increased in number and changed in character from a short-time to a long-time obligation.

It may be that the increasing number and proportion of married women gainfully employed demonstrate that marriage does not necessarily mean a release of women from breadwinning activities, but frequently greater economic responsibilities. On the other hand, many married women continue employment because of the additional comforts and luxuries which their independent incomes afford them. Perhaps it is another expression of the new freedom of women.

Whatever the causes may be, in 1930 there was one married woman gainfully employed out of every three or four women gainfully employed, and out of every ten married women in the general population. These figures are exclusive of widowed or divorced women gainfully employed. If they were included, the ratios would be even more striking.

**18. Occupations of Women.**—Changes in the character of the employment of women are as interesting as its mere increase. Passing from the quantitative to the qualitative aspect of this problem, the following broad occupational groupings have been most important among women workers: (1) domestic service, (2) agriculture, (3) industry, (4) commerce and business, and (5) professional life.

The 1930 census revealed the greatest number of employed women, 3,438,000, in domestic and personal service. Next in order came the following: clerical occupations, employing 1,970,000; manufacturing and mechanical pursuits, employing 1,860,000; and the professions, engaging 1,226,000. Trade and agriculture each employed less than one million women workers and transportation and communication together claimed slightly more than a quarter of a million women workers.

The changing character of work done by employed women can be seen by a comparison of the 1930 census statistics with those for 1870. It is pictured in Chart 41, which traces percentages and not absolute numbers. Hence relative changes in occupational tendencies are clear, but the absolute increase in number of employed women is not apparent.

The relative importance of agriculture to women workers has decreased markedly, claiming 21 per cent of all employed women in 1870 but only 7 per cent in 1930. The declining relative importance of domestic and personal service is less marked and less steady, falling from 53 per cent in 1870 to 28 per cent in 1920, but rising to 33 per cent in 1930. Manu-

facturing and mechanical industries declined slowly and steadily in relative importance, falling from 20 per cent in 1870 to 18 per cent in 1930, in spite of the fact that they employed in absolute numbers far more women than ever before. On the other hand, the other three occupations of women grew, not only in absolute numbers, but also in relative importance. First in rate of growth was the clerical group, which increased from 0.4 per cent in 1870 to 19 per cent in 1930. Next in order came trade and transportation, increasing from 1 per cent in 1870 to 12 per cent in 1930. Finally, the professional group, which had employed only 6 per cent of all women workers in 1870, doubled its relative importance to 12 per cent in 1930. "These data seem to show a continuous shift in women's employment away from the older agri-

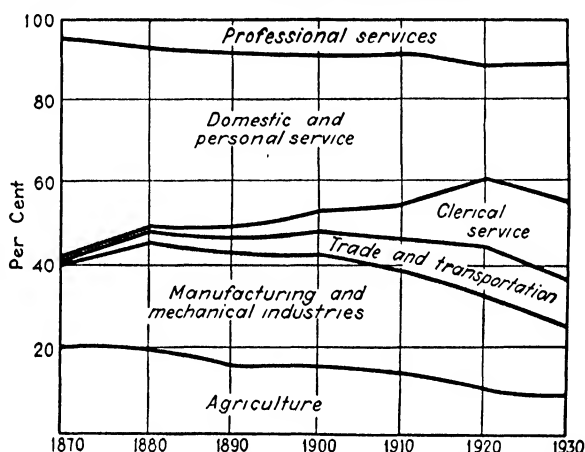


CHART 41.—Occupational distribution of gainfully employed women (16 years of age or over) (1870 to 1930) (expressed in percentages of total for each census year). (*Reproduced from "Recent Social Trends," vol. I, p. 717.*)

cultural and industrial pursuits toward office, store and professional work with domestic and personal service somewhat more stable."<sup>1</sup>

**19. Hours of Women in Industry.**—The problem of hours and working conditions is even more important in the case of women and children than it is with men. Woman's work is not so likely to be finished when she leaves the factory or office. Moreover, she is more susceptible of fatigue than is man. For these reasons, as well as because of the greater possibility of exploitation, the law has been more ready to limit working hours of women than those of adult male workers.

Excessive hours, overtime employment, and night work have been common among women workers. Moreover, they were frequently employed in open or secret defiance of existing statutes. Although the legal 8-hour day for women has been introduced into several states, the

<sup>1</sup> "Recent Social Trends," vol. I, p. 717.

9- and 10-hour day generally prevailed. Social and biological reasons, however, make desirable the 8-hour day and the 6-day week for women in industry.

The United States Women in Industry Service made a study, in 1918, of the working conditions of over 12,000 women workers in Indiana. The result showed that 30 per cent of these women had a working day of 10 hours or more. This was normal and did not include overtime. An industrial survey of almost 19,000 women workers in Virginia in 1919 showed that 46 per cent of those studied were working 10 hours or more per day.<sup>1</sup>

Some progress away from excessive hours of work and toward the 8-hour day was made in the following decade. But the hours of work of employed women were still onerous in many states. The situation was particularly acute in the textile mills of the new industrial South where numerous women and children were employed.

Before the recent depression, the Women's Bureau of the U. S. Department of Labor investigated the prevalence of the 8-hour day among women in industry in nine of the fourteen Southern states.<sup>2</sup> The result was as follows:

The outstanding fact has been that in practically all of the southern states into which we have gone, the percentage of women working 48 hours or less has been very low, in some of them so low that there is almost no percentage to be recorded. Roughly, the range in these 9 states<sup>2</sup> is from 1 per cent in Georgia to 21 per cent in Arkansas. Maryland is the one exception, due to the predominance of the garment workers in that state, who, with a strong union, have run the percentage up to 52 per cent. In the North, on the other hand, in the states we have surveyed there, the range is from 13 per cent in Indiana to 68 per cent in Rhode Island. The bulk of the women in the northern group really lies between 34 per cent and 68 per cent, with Indiana and Iowa, which have no laws regulating hours, and Oklahoma with a 9-hour law bringing the record down.<sup>3</sup>

**20. Working Conditions of Women.**—Surroundings of working women are as important as the number of hours they are employed. Conditions in this respect also were far from satisfactory. Although working environments must necessarily vary in different industries and places of occupation, there are surely certain common standards of decency and comfort. For illustration, seats, rest rooms, and sanitary toilet facilities should be provided for all women at work in industry.

<sup>1</sup> *Monthly Labor Review*, pp. 99 and 100, August, 1920.

<sup>2</sup> Mississippi, Alabama, Georgia, South Carolina, Virginia, Maryland, Kentucky, Tennessee, and Arkansas.

<sup>3</sup> ANDERSON, MARY, director of Women's Bureau, U. S. Department of Labor, "Women Work Long Hours in Southern Mills," *American Labor Legislation Review*, p. 36, March, 1928.

The Women in Industry Service of the U. S. Department of Labor in 1918 drew up certain standards for women in industry which were subsequently endorsed by the U. S. War Labor Policies Board. It gave a well-formulated set of standards concerning the employment of women. The 8-hour day and the 48-hour week were specified and home work was proscribed. The cooperation of workers and their employers was sought for the maintenance of existing laws. Desirable working conditions were insisted on and specific recommendations made.

**21. Low Wages of Women.**—It is a matter of common knowledge that the wages of women, as well as those of children, have been very small. It is true also that women have frequently received less money than men for the same work. The wages of many women have been insufficient to support even themselves and hopelessly inadequate to maintain a family. On the other hand, attempts have been made to justify their inadequacy on the grounds that they were sufficient for *pin money* or to help supplement the general family income.

Public attention was first drawn to the low wages of women workers in 1899 by an important report of the U. S. Industrial Commission, which revealed that many girls and young women did not receive sufficient wages to meet their necessary living expenses, particularly in larger cities. The 1900 census found that a quarter of all women workers, sixteen years of age or over, received less than \$4.50 a week, the median wages for this entire group of women workers being only \$5.64. A comparison of these wages with minimum costs at that time of maintaining a single woman, living independently and not at home, reveals their inadequacy to permit a minimum standard of physical health, of comfort, and even of necessities, and finally of moral safety from prostitution.

Although the New York Factory Investigating Committee declared that a weekly wage of from \$8.20 to \$9 was necessary for women workers in 1915, it found that in this year one-half of all wage earners in confectionery, paper-box and shirt manufactures, and mercantile establishments were getting less than \$8 a week. Indeed, one-eighth of the workers investigated received less than \$5 a week, and one-third less than \$7 a week. Although these industries employed chiefly women workers, these figures applied to all employees investigated, men and boys as well as women and girls. Of the women employed in stores, 54 per cent received less than \$7.50, and 25 per cent received less than \$5.50 per week. The women employed in confectionery establishments were paid most poorly.<sup>1</sup>

The minimum-wage standard set for women and girls dependent on their own earnings has been variously estimated. Because of increases in the general price level, this minimum standard was raised by the Minimum Wage Boards of Massachusetts and Minnesota in 1914 and 1915

<sup>1</sup> New York Factory Investigating Committee, *Report*, vol. 1, pp. 34-36, 1915.

from \$8 a week to \$12 and then to \$15.50. The peak was reached at the height of inflation in 1920 when a minimum-wage rate of \$16.50 a week was prescribed for women workers in the District of Columbia.

From the investigations made at the same time in other states where minimum-wage laws for women were not in force, it can be seen that the wages actually paid to many women workers have been far below these estimates of a decent standard of living. Thus an investigation revealed the fact that the median wage of employed women in Kansas in 1919 and 1920 was about \$12. One-fifth of these women received less than \$9 a week. Another investigation of women workers in Ohio in 1919

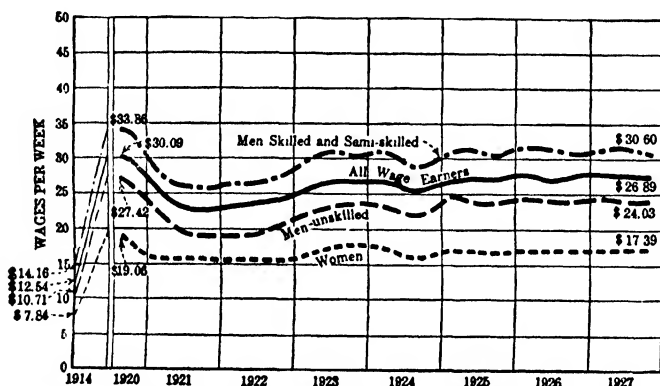


CHART 42.—Low wages of women in industry. Average actual weekly earnings of men, skilled and unskilled, of all wage earners; of men unskilled; and of women workers in manufacturing (25 industries). (Reproduced by courtesy of National Industrial Conference Board, "Wages in the United States, 1914-1927," p. 32.)

revealed that about 14 per cent of them were receiving less than \$10 a week and over 50 per cent were receiving less than \$15 a week.

A study of the wages of women in industry from 1914 to 1927 was made by the National Industrial Conference Board. It was based on an analysis of wages in twenty-five manufacturing industries. The findings of this organization disclosed that the wages of women in industry, as measured either by average hourly wage rates or by average weekly earnings, were continuously below those of all wage earners. Not only were the average wages of women in industry lower than the average wages of skilled and semiskilled men employed in industry, but also they were lower than the average wages of unskilled men. This is brought out graphically in Chart 42.

These findings of the National Industrial Conference Board indicate that there was a considerable increase in average hourly wage rates and in average weekly earnings of women workers from 1914 to 1920. It must be remembered, however, that the increase in costs of living within these years absorbed most of this increase in money wages. According to the



findings of the National Industrial Conference Board, the average actual weekly earnings of women in industry were increased from \$7.84 in 1914 to \$19.06 in 1920. The average weekly earnings of women in industry were fairly constant from 1921 to 1927. Nevertheless, there was some recession in their money earnings if not in their real earnings, for the average weekly earnings of women in industry were only \$17.39 toward the close of 1927.

During the economic depression of 1929 to 1933, all wages were lowered, but the standard of a living wage for women workers was completely shattered. Sweatshops paid a mere pittance to the makers of low-priced women's dresses. Unorganized factory workers in the garment industries and knitting and weaving mills were paid starvation wages. Union wage scales were lowered and even the unions themselves were weakened or broken. Frances Perkins, Secretary of Labor under President Roosevelt, the first woman to become a cabinet minister, struggled ardently to improve the deplorable conditions among women workers which faced her on the assumption of her duties.

**22. Reasons for the Low Wages of Women.**—The low wages paid to women workers are the result of a number of causes, one of the chief of which has been their relatively weak bargaining power. It is only recently that women have developed effective labor organizations. Again, women are generally more immobile than men. They cannot or will not go as readily from one employment into another. The labor of women was formerly concentrated within a relatively few industries, in which they were forced to meet the competition of many other women seeking part-time or temporary employment. Furthermore, many women have not been entirely self-supporting and entirely dependent on their own earnings. The failure of this group to demand or to secure a living wage has forced down the general level of wages for all women workers.

The U. S. Commission on Industrial Relations put the matter somewhat as follows in its final report of 1916. The low wages paid to men have made it imperative that women enter industry in order to help support their families. The low wages of women are due in large part to the tendency of employers to substitute women for men, because they will accept lower wages and are less likely to protest against undesirable conditions of employment. Finally, the introduction of improved machinery, which makes exceptional skill and strength unnecessary, has been a very important factor in this substitution of women for men at relatively less wages.

**23. Inequality of Wages of Men and Women.**—There are two problems centering about the low wages of women. The first is concerned with their insufficiency to maintain decent standards of living. This problem is reflected in such legislation as minimum-wage laws for women.

The second is concerned with the lower wage scale of women in those occupations in which there is competition with men. It involves the question of equal pay for equal work.

Women did not enter industry on the same terms as men. The early exploitation of women assumed many forms, chief among which was a sex discrimination in wages in numerous occupations in which both men and women were employed. Studies of the wages of women in industry in England, even as late as the World War, disclosed a very apparent and widely prevalent tendency of employers to pay a lower wage to women than to men doing the same work. In some cases, the piece rates for women workers were only one-half, or even one-third, of those paid to men in the same occupations. Again, when women took the places of the men who went to war, the piece rates were generally lowered to a considerable degree in these effeminated industries.

During the World War, the United States government adopted a policy of wage equality for men and women in most occupations in which both were employed. But in private employments, the substitution of women for men at lower wage rates was still common. Many returned soldiers discovered that their employments had been thrown open to women who would work for less wages than men were willing to accept.

"Equal pay for equal work" was finally given recognition by the American Federation of Labor, although certain trades in which the controversy had waged most strenuously became exclusively women's trades and others exclusively men's trades. It is alleged that, for the same grade of labor, wages are still lower in the former group than in the latter. Recent salary schedules for teachers in most communities have been planned without sex discrimination. The U. S. Department of Labor through its Women in Industry Service has gone on record that "wages should be established upon the basis of occupation and not on the basis of sex. The minimum wage rate should cover the cost of living of dependents and not merely for the individual."

Within recent years, an increasing number of women in industry have begun to organize like men. Moreover, others have been entering mercantile pursuits and the professions on more nearly equal terms. Again, the acquisition of the franchise by women must mean that their political equality will be supplemented by an economic equality. The so-called "Woman's Movement" has begun to express itself in industrial democracy, as well as in political and social democracy. As time goes on, it is likely that this problem will become one of mere historical interest.

**24. "Equal Pay for Equal Work" Arguments.**—There are various arguments for the failure to pay equal wages to men and women in the same occupations. It is alleged that many women have merely themselves to support, and that some of them do not have even this responsi-

bility. On the other hand, men are more apt to have dependents and greater financial responsibility, for they are frequently heads of families and the chief breadwinners.

It is also argued, though with less force, that the financial needs of women are less than those of men, because of their ability to do such things as the preparation of their own food and the making of their own clothing. Back of this argument, however, is the traditional feeling that the rightful place of women is the home.

Another argument for wage inequality is that men are more efficient than women. The greater physical strength, and perhaps the exceptional skill of men, prevent women from entering a number of trades and perpetuate some wage differences which are based on sex. On the other hand, there are many occupations in which women are perhaps more efficient than men, because of their greater capacity for detail, routine, and careful painstaking work.

The relative efficiency of men and women should not be discussed as a general question but only for particular occupations. Women's industrial qualifications are different from, rather than inferior to, those of men. Moreover, many of them are based on differences in the social environment, rather than on the physical difference of sex. As time goes on, many traditional, rather than inherent, differences will tend to decrease.

On the other hand, the fact of sex cannot be ignored. Time lost through illness and domestic causes is proportionately greater among women than men. Moreover, legal restrictions concerning the employment of women cause an added expense to the employer, which he is apt to deduct from the wages of his women employees.

**25. The Sweatshop.**—An important phase of the problem of women in industry is that of the sweatshop. Although sweated trades are frequently those in which women are employed, the problem is not exclusively such. Old men, young children, and the infirm also are represented here. Indeed, it may be said that the sweating system exists wherever there is an abundant supply of labor helplessly dependent on unscrupulous employers. It is an extreme form of economic exploitation which has existed in practically all our large cities, especially where there has been a plentiful supply of cheap immigrant labor.

Although involving conditions growing out of the industrial revolution, the sweatshop is not a part of the factory system. Indeed, one of its most characteristic features is that the work is done not in large supervised factories but in homes of the sweaters or rooms of the workers. For this reason some students of the problem have regarded the sweatshop as a modern survival of the domestic system of manufacturing which antedated the industrial revolution. The fact that it is industrial home work makes difficult supervision and regulation.

Although there have been many sweated industries, such as the manufacture of cigars and artificial flowers, the clothing industry was for years one of the most flagrant examples. Before the development of organization among the garment workers, the sweatshop flourished in the Russian Jewish section of New York City. The essence of the system was the farming out to competing contractors of material cut for garments, which, in turn, was distributed among individual workers to be sewn into finished garments. The cutting of the cloth was generally done under the direct supervision of the manufacturer, but these pieces were then delivered to contractors who had agreed to make them up at so much per garment.

The contractor or sweater might furnish a room, the sweatshop, and have the work done there under his supervision, or he might distribute the garments among workers to be finished in their own homes. In both cases, there was a complete absence of collective bargaining, as the sweater made individual wage agreements with his various workers. His profit lay in the margin of difference between the contract price and the wage cost of the garment.

**26. Causes and Effects of the Sweatshop.**—The causes of the sweatshop are those common to the employment of women and children. The work is simple in character, and its chief requirement of labor is cheapness. The existence of large groups of isolated or ignorant workers, such as European immigrants in a large city, facilitates sweating.

The seasonal aspect of a given industry is partially responsible for the sweatshop, for large manufacturers hesitate to install capital which cannot be used continuously. Hence, the small shop or the sweatshop is frequently utilized to take care of a temporary excess demand.

Competition for industrial home work among certain unfortunate groups in society reduces the remuneration in sweated industries to a mere pittance. What is pin money to one woman may be subsistence to the widowed and the aged. The infirm, the crippled, and the whole group of partially employable may be utilized by the sweater in busy seasons.

Wages in sweated industries are not only low, but also unequal for the same amount of work. Self-interest impels the sweater to drive the hardest possible bargain with every worker, and he is in a position to take advantage of their individual misfortunes or ignorance. During the Spanish-American War, for illustration, a large portion of standard army trousers was manufactured under this system. The result was that within the city of Philadelphia the piece wages paid to the workers in different shops varied from 35 to 75 cents a garment.

Other evils of the sweating system in addition to low and unequal wages are long hours of work and irregular employment. During the busy season, such as Easter, garment workers toil far into the night, in spite of the fact that they may have had scant employment in the previous weeks.

Finally, conditions of work under the sweating system are generally miserable. The wearers of fashionable tailored-to-measure clothing are often ignorant of the surroundings in which their garments have been finished. Conditions of employment in many sweatshops are dangerous, not only to the workers, but also to consumers and the general public. As sweatshops are located in the home of the sweater or in rooms of the workers, adequate factory inspection is impossible.

**27. Regulation of the Sweatshop.**—The very nature of the sweatshop makes difficult remedial legislation. However, an attempt has been made to require licenses for premises on which sweated trades are conducted. This offers some possibility of inspection, for the police power of the state permits an entrance even into the homes of its citizens in the interest of public health and safety. Contractors may be held responsible for work done within licensed premises. However, a large corps of inspectors is necessary to make such legislation effective. Moreover, such regulation can improve only working conditions. It cannot eliminate evils of low wages, unequal wages, and excessively long hours. The problem of inadequate wages has been attacked by other legislation for women, such as minimum-wage laws.

The sweatshop has been more effectively attacked by organized labor than by state legislation. Low wages in sweatshops mean low wages in factories. Organized labor has been insistent in its efforts to eliminate, rather than to ameliorate, the sweatshop. Thus the Amalgamated Clothing Workers and the International Ladies' Garment Workers have included prohibitions against industrial home work in their joint agreements.

**28. Protective Legislation for Women.**—Child-labor legislation has been paralleled by the development of protective legislation for women workers. As women and children were employed on a considerable scale in the manufacture of textiles, these industries were among the first to be regulated by the states in which they flourished.

In the wave of humanitarianism which swept the country just before the Civil War, the organized women workers of New Hampshire secured the 10-hour law of 1847, which has been regarded as the first of its kind in the country. Other New England and Middle Atlantic states followed, but the movement came to naught because these laws specified that the 10-hour day prevail in "the absence of an express contract requiring greater time." Employers took advantage of this loophole by making the signing of some blanket contract a prior condition of employment. It is important that all protective legislation be carefully worded, for the existence of any "joker" in the text of the law may nullify its purpose.

Effective legislation did not appear until a decade or two after the Civil War. Perhaps the era of protective legislation for women workers

may be dated from the passage of the Massachusetts law of 1874, which limited the number of hours of employment of women and minors to ten daily and sixty weekly. As only "willful" violations could be punished, this law did not become effective until 1879, when it was amended in this respect. Similar laws were then passed by other states in the closing years of the nineteenth century.

It was contended that these laws interfered with the individual right of freedom of contract. Thus the Supreme Court of Illinois<sup>1</sup> held as unconstitutional a law of that state which provided an 8-hour day for women in factories. It held the law to be "a purely arbitrary restriction" on freedom of contract, which women, as well as men, were guaranteed by the Constitution. Other state court decisions differed on the constitutionality of their laws for the protection of women and children. Thus a Nebraska court declared, "that women and children have always, to a certain extent, been wards of the state."<sup>2</sup>

In 1908, a crisis was passed when the United States Supreme Court<sup>3</sup> upheld the constitutionality of the Oregon 10-hour law for women workers in factories. Their health was regarded as vital to group welfare and the law was viewed as a legitimate exercise of the police power of the state. The effects of this legal victory were powerful and immediate.

A short time afterward the Superior Court of Illinois reversed the decision of a decade before and declared that a law of that state, which limited the number of hours that women might be employed in certain industries, was not class legislation and therefore not unconstitutional. In 1914, an 8-hour law for women was similarly sustained in the state of California. Apparently a national victory had been won concerning the constitutionality of legislation restricting the hours of employment of women.

Before the recent depression and the following reconstruction measures, only half a dozen states had no legal restrictions as to the number of hours that women could be employed. In some states the 8-hour day was specified, in others the 9-hour day, and in still others the 10-hour day. In some states, the maximum number of hours was expressed on a weekly basis and varied from 48 to 60 hours per week. In other states, there was a combination of the daily and weekly basis. In all progressive states, the standard had been raised to the 8-hour day for women workers.

In many instances, a maximum number of hours was prescribed for only certain classes of industries within the state, as, for illustration, manufacturing or certain specified manufacturing industries. In most states, an exception to the law was made in the case of women employed in agriculture or domestic service. On the other hand, the laws of a

<sup>1</sup> *Ritchie vs. The People*, 155 Ill. 98, 1895.

<sup>2</sup> *Wenham vs. State*, 65 Nebraska 394, 1902.

<sup>3</sup> *Muller vs. Oregon*, 208 U. S. 412, 1908.

number of states absolutely forbade the employment of women in dangerous and unhealthy occupations, such as mining.

In many states, the employment of women at night was either forbidden or restricted. Some states have passed laws against the employment of women for several weeks before and after childbirth. The elimination or at least the reduction of overtime on the part of women workers has sometimes been accomplished by insistence on higher rates of pay for overtime hours of work. In order to eliminate the sweatshop in certain industries, a number of states have legislated against industrial home work, except for members of the immediate family who live on the premises.

**29. Purpose and Types of Minimum-wage Legislation.**—The minimum-wage law represents still another attempt at the legal protection of women in industry. Its avowed purpose is to secure a living wage and to prevent employment at less than this specified minimum level. Although often applied to adult male workers in European lands, the scope of minimum-wage laws in this country before 1933 was limited to women workers. But in all lands and industries it developed as a weapon of last resort against the sweatshop and the sweated industries.

Minimum-wage laws may be either general in their application or limited to particular groups of workers in particular occupations. They may either prescribe a flat rate of pay as a minimum or proscribe the paying of wages less than sufficient to maintain a minimum standard of living. In the latter case there must be some provision in the law for the creation of a permanent administrative board to determine from time to time what constitutes a minimum standard of living and hence a minimum wage. The constantly changing price level, local differences in costs of living, and peculiar differences in wage schedules make this type of minimum-wage law preferable to the specification of a particular minimum wage.

**30. Origin of Minimum-wage Laws.**—Like many other experiments in labor legislation, minimum-wage laws originated in Australasia. The conciliation boards of New Zealand, established in 1894 for the compulsory arbitration of industrial disputes, were authorized also to prevent sweating by a grant of power to fix a minimum wage within the sweated industries.

Victoria, Australia, in 1896, passed the first independent minimum-wage law in an attempt to regulate the sweated industries. Administrative power was vested in especially created boards composed of representatives of both workers and employers under the chairmanship of a non-partisan umpire. The experiment was regarded as so successful that it was extended in 1900 from the six specified sweated industries to nearly all the important industries of the province. Moreover, it was extended to men as well as to women workers. In the first

decade of the twentieth century, other Australian states enacted similar legislation.

In 1909, Great Britain enacted the Trade Boards Act for the regulation of certain specified trades which were regarded as sweated industries. The jurisdiction of these boards was gradually extended to include men as well as women, skilled as well as unskilled workers, and agricultural as well as industrial labor. Minimum-wage legislation in some form has spread also to the continent of Europe, to Canada, and to the Argentine Republic.

**31. Minimum-wage Laws in the United States.**—Massachusetts was the first state in this country to pass a minimum wage law for women workers. This act of 1912 provided for the creation of an administrative board to determine what would constitute a minimum wage, but the prescribed minimum wage was not made mandatory. The law relied for its enforcement on the weapons of publicity and public opinion. In this respect it was remarkably effective.

The following year, eight other states passed minimum-wage laws for women, most of which were mandatory in character. Before the outbreak of the World War, the movement was well on its way in a number of our states. Congress finally passed a minimum-wage law in 1918 for the District of Columbia.

These minimum-wage laws, unlike those of Europe and Australasia, were limited in their application to women. For a number of years, the attitude of organized labor in America was frankly hostile to the extension of minimum-wage legislation to adult male workers, even in the sweated industries.

In 1917, the Supreme Court of the United States by an even decision refused to set aside a decision of the Superior Court of Oregon in favor of its minimum-wage law. Following this verdict of the Supreme Court of the United States, the superior courts of a number of states refused to declare unconstitutional minimum-wage laws of their respective states.

The legal status of minimum-wage laws seemed fairly well established, when events suddenly took a very different turn. In April, 1923, the United States Supreme Court,<sup>1</sup> by a five-to-three verdict, declared unconstitutional the District of Columbia mandatory-wage-board law. It was held to be an unwarranted interference with the constitutional guarantee of freedom of contract. A storm of protest was aroused, some of which later crystallized into a movement for the amendment of the constitution to limit the power of the Supreme Court.

This important decision implied the invalidity of other mandatory minimum-wage laws in various states throughout the Union. In 1924, the Wisconsin minimum-wage law for women and children was similarly

<sup>1</sup> *Adkins vs. Children's Hospital*, 261 U. S. 525, 1923.



declared unconstitutional. Again, in 1927, the Supreme Court of the United States denied the validity of the minimum-wage law of Arizona. Thus legislative regulations concerning hours and working conditions of women have been viewed by the courts as a legitimate extension of the police power of the state, but not so with legislation seeking to compel the payment of a certain wage or a certain wage level.

President Roosevelt's reconstruction program of 1933 brought a complete change of attitude toward minimum-wage legislation. The earlier chapters<sup>1</sup> noted minimum-wage provisions of the new industrial codes, particularly that of the President's own blanket code, authorized by the National Industrial Recovery Act. The attitude of the courts on this matter remains to be seen, but it is evident that the Supreme Court must reverse its former decision, either for the long run or during the period of the emergency, or this important phase of the Roosevelt recovery program will be nullified. Meanwhile, minimum-wage legislation no longer is confined merely to women but has been expanded to include all workers. Again, it has become a Federal, rather than a state, problem, and one of national trade associations and industrial areas, rather than a local problem. Moreover, minimum wages became a mandatory matter, rather than one supported merely by public opinion.

**32. Objections to Minimum-wage Laws.**—The determination of a minimum wage at any given time and for any given group of workers is as difficult as the former problem of the determination of a minimum standard of living. Indeed, they are the same problem. An Australian court, for illustration, once defined a minimum wage as a sum sufficient to cover "the normal needs of the average employee regarded as a human being living in a civilized community."

Any such definition, however, is no answer to the problem, but merely a restatement. It raises immediately such questions as: What are normal needs? Who is the average employee? Should this minimum wage be determined on the basis of a minimum standard of living for a single individual or for a family of four or five? Should the minimum wage be the same for a man as for a woman?

Any minimum wage, no matter how carefully formulated, must result in certain injustices, as well as numerous difficult problems. Nevertheless, social injustices may be less with minimum-wage laws than without them. Social welfare may be increased by eliminating the employment of individuals at wages too small to permit health and working efficiency.

The familiar *laissez-faire* argument contends that wage determination by arbitrary legislative or administrative bodies is impossible or undesirable. Wages are determined by the interaction of the forces of supply and demand for various kinds of labor. To increase the wages of one group by any given sum, it is contended, is merely to subtract from the wages of another group an equivalent amount.

<sup>1</sup>See p. 195.

On the other hand, many advocates of minimum-wage legislation contend that wage boards merely seek to determine and enforce the competitive rate of wages for any group of labor. They seek to prevent an unscrupulous employer or sweater from taking advantage of a given situation and from cutting under this so-called "normal competitive wage" by virtue of his strategic bargaining position. Moreover, minimum-wage laws restrict the field of competition to employable workers by eliminating defectives and other unemployable workers whose competition scales down the wages of all workers in those industries. Perhaps that is a fairer statement than the bald objection that minimum-wage laws interfere with the free play of natural economic forces in wage determination.

Other objections to minimum-wage laws have been advanced from the point of view of the employer, the employee, and society in general. It is contended that minimum-wage laws put a premium on inefficiency, because the worker must be paid a given wage whether or not he earns it. Again, the effect of such legislation may be the driving out of industries from a given state into less progressive ones where there are no minimum-wage laws.

From the point of view of the employee, it is contended that minimum-wage laws tend to undermine the strength of organized labor. The laborers should look to the unions, rather than to the state, for an increase in wages. Moreover, skilled workers fear that the minimum wage may become the maximum wage, and that the less efficient workers may profit at the expense of the more efficient ones.

In the last place, it has been argued that society as a whole would suffer from minimum-wage legislation because of an increase in the size of the pauper or dependent group. A large portion of the most wretchedly paid workers receive such low wages because they are mentally or physically subnormal. Thus sweatshop workers include the aged, children, the crippled, and the ignorant. Is this group economically capable of producing sufficient wealth to justify for itself a "living wage?" To insist on a minimum wage would mean that no employer would hire members of this partially employable group. They would be thrown back upon society for support. Under the present system, however, incompetent workers are capable of earning at least a small sum, by means of which they can partially support themselves or maintain themselves at a subnormal standard of living.

Such an argument possesses little merit. The small earnings of submarginal workers afford little social recompense for the utter demoralization of the entire labor market by cutting under a living wage. Indeed, one of the chief aims of the reconstruction program of 1933, and the codes submitted in accordance therewith, was the elimination of the submarginal laborer, the submarginal employer, and the submarginal farmer.

**33. Results of Actual Experience with Minimum-wage Laws.—**

The following favorable results of minimum-wage laws have been pointed out by their defenders. In the first place, nearly all the evidence that has been collected thus far goes to show that such legislation has raised wages. This has been particularly true of the sweated trades.

A report of the U. S. Bureau of Labor Statistics, July, 1915, on the effects of minimum-wage legislation in Oregon, gave as its conclusion that the average weekly earnings of women in retail stores were over 8 per cent higher in spite of the existence of a business depression which had caused an 8 per cent decrease in sales. Moreover, there did not seem to be a general leveling down of wages above the prescribed minimum. Instead, there had frequently taken place a raising of the total wage schedule from the new minimum wage as a higher basic level.

In the second place, the effects of minimum-wage legislation on unemployment were found to be less severe than had been predicted by critics. Although in many cases subnormal workers were thrown out of employment, a system was evolved by means of which a certain number of crippled or disabled workers were licensed for employment at less than the fixed wage rate. This mitigated an increased demand on charity.

If some increase in the dependent group is assumed, however, this price is not too much to pay for the elimination, as a factor in wage determination, of the ruinous competition of the submarginal worker. It has been alleged that his low wage has tended to fix wages for the whole group in many of the sweated trades. Minimum-wage legislation forces an economically desirable distinction between the unemployed and the unemployable groups.

In the third place, experience has shown that the removal of an industry from one state to another because of the passage of a minimum-wage law has generally been more of a threat than a reality. The additional labor cost has not been so great as expected, because of the increased productivity of the better workers.

In the last place, organized labor in America has come to feel that it has little to fear and much to gain from minimum-wage legislation. Its earlier attitude of suspicion has changed to one of encouragement and support.

**34. Summary.**—One of the great maladjustments of the industrial revolution in England was the employment of young children in the factories and mines. The situation was gradually improved during the past century by the passage of social legislation. The early rise of manufacturing in America and other parts of the world was attended by the development of similar problems of exploitation.

Children have entered almost all occupations requiring little strength or skill. Their meager earnings do not justify the loss of educational or recreational opportunity which is involved. However, child labor

decreased markedly during the opening decades of the present century, owing to the passage of effective child-labor laws by many states. It was given a powerful blow by the industrial codes formulated or imposed during the recovery legislation of 1933.

The United States is a constitutional and Federal government. Before 1933, the regulation of child labor fell within the residual powers of the individual states. Consequently, it was difficult to secure uniformly high standards of child-labor legislation throughout the country. The laws of some states were excellent, but those of other states were woefully inadequate. Two Federal laws, previously passed for the regulation of child labor, were declared unconstitutional. A Federal amendment has been passed by a two-thirds majority of both houses of Congress, but it has not been ratified by three-fourths of the states. This amendment is merely an enabling measure, giving to the Federal government power to regulate the employment of children under eighteen years of age.

The development of the factory system was accompanied by the entrance of women into industry in addition to their former occupations of agriculture and domestic service. Recent years have seen the entrance of women into business and the professions. Moreover a greater number and ratio of married women are evident.

Various states of the Union have passed different pieces of legislation for the regulation of the hours and working conditions of employed women. Some states have passed minimum-wage laws, for investigation has shown that the wages of women in most occupations have been inadequate, and in some cases far below the wages of men for the same work. The mandatory minimum wage, however, was declared unconstitutional.

The sweatshop represents a survival of the domestic system of manufacturing. Goods are made in the home rather than in the factory. Wages are low and unequal in the sweated industries, for individual, rather than collective, bargaining prevails. Organized labor has constantly opposed home work in its fight against the sweatshop. The state has made recourse to minimum-wage laws as its weapon of last resort against the sweated industries.

The recovery legislation of 1933 was as revolutionary in its effects on minimum-wage laws as on child labor. Not only did the industrial codes forbid the employment of children, but also they forbade the payment of less than a prescribed minimum wage.

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### Questions for Discussions

1. What was the theory of *laissez-faire*, and how did it prevent the passage of child-labor legislation?
2. Is child labor a local, a national, or an international problem?
3. Is it essentially an industrial problem? Why or why not?
4. Outline causes of child labor.
5. Outline effects.
6. What are some essential points in a model child-labor bill?
7. Does the proposed child-labor amendment prohibit the employment of children under eighteen years of age?
8. Show the increasing number of women in industry.
9. Show the increasing number of occupations represented.
10. What are some of the causes of the low wages paid to women?
11. What are some essentials of the sweating system?
12. How can the evils of sweating be overcome?
13. Show the arguments for and against minimum-wage laws.
14. Discuss the constitutionality of minimum-wage laws.
15. Show the similarities of the problems of child labor and of women in industry.

### Topics for Investigation

1. Early English conditions of child labor and of women in industry.
2. Legislative reform in England during the first part of the nineteenth century.
3. Child labor today in the cotton mills of the Orient.
4. The American Constitution and child-labor legislation.
5. Child labor and the industrial South.
6. The child-labor laws of your own state.
7. Effects of the World War upon the problem of women in industry.
8. "Equal pay for equal work."
9. Minimum-wage legislation in Australasia.
10. Recent minimum-wage legislation in Europe.
11. Child-labor provisions of the industrial codes of 1933 and 1934.
12. Minimum-wage legislation under the codes of 1933 and 1934.

## PART FOUR

### COLLECTIVE BARGAINING AND LABOR ORGANIZATIONS

Chapter XII. Development of Collective Bargaining in Great Britain and the United States, *The Legal Status of Labor Organizations.*

Chapter XIII. Development of Labor Organizations and Employers' Associations, *The Parties to Collective Bargaining and the Present Industrial Alignment.*

Chapter XIV. Aims and Policies of Trade Unionism, *The Economic Basis of Collective Bargaining.*

Chapter XV. Labor Disputes and the Weapons of Last Resort, *Problems of Industrial Conflict.*

Chapter XVI. Industrial Conciliation and Arbitration, *Problems of Industrial Peace.*





## CHAPTER XII

### DEVELOPMENT OF COLLECTIVE BARGAINING IN GREAT BRITAIN AND THE UNITED STATES

#### THE LEGAL STATUS OF LABOR ORGANIZATIONS

**1. Ancient Exploitation and Class Struggle.**—The exploitation of the laboring classes has existed throughout the ages, but it has assumed many different forms. Karl Marx, the German socialist, attempted to sum up the evolution of the workers into the three following stages: (1) slavery, (2) serfdom, and (3) wage slavery. Under slavery there was no problem of wages because the person of the slave, as well as his services, was the property of his master. Serfdom represented a slight improvement over slavery, for the serf was legally attached to the soil and could not be sold off the estate of his master.

Slavery is older than civilization. The cultured classes of Greece and Rome lived in leisure because of the enslavement of the masses. During the Middle Ages, the vast slave system of the Roman Empire gradually gave way to the serfdom of the medieval period. But the amelioration of the workers was slight, for the laboring masses continued to be exploited by the ruthless military classes.

Class struggle, like the exploitation of the masses by the classes, is older than industrialism, capitalism, or the wage system. Slave insurrections and class warfare shook the later Roman Republic to its very foundations. During the Peasants' Revolt of the medieval period, the ideal of social and economic equality found expression in the old song

When Adam delfed and Eve span,  
Who was then the gentleman?

**2. Modern Exploitation and Class Struggle.**—The beginning of the modern era saw the development of commerce and the coming in of capitalism. As currency came into common usage, medieval payments in labor and produce gave way to money rents and money wages. The rise of capitalism saw the decline of serfdom and the break-up of the manorial system. Serfs gradually became free peasants and artisans, although the transition was not completed in Western Europe until the period of the French Revolution, and even later in Russia.

The industrial revolution, involving the use of power machinery and the factory system, marked the advent of a recent phase of capitalism, which has been termed "industrialism." The political center of gravity

shifted from the old landed aristocracy to a new capitalist class of manufacturers. The workers, who had lost control of their instruments of production, continued to be exploited cruelly by these new industrial despots, who had just risen to power during the early decades of the factory system.

The oppressed workers in the crowded manufacturing cities began to demand relief from certain new forms of industrial maladjustments, just as their forefathers had revolted in the days of the Gracchi or John Ball. A different class consciousness developed trade unions and other new forms of labor organization. The old problem of class struggle now expressed itself in a conflict between capitalists and wage earners, rather than between the enslaved and the free, the military and the industrial, or the landed and the landless groups.

**3. From Status to Freedom of Contract.**—Status is a condition determined by birth, as, for illustration, slavery and serfdom. Freedom of contract, on the other hand, implies social and economic liberty, due to the absence of hereditary castes. Contract involves a freedom of choice to accept or to reject certain conditions of employment. An individual possesses the legal right to bargain as to wages, hours, and general working conditions, as well as the freedom to move about from one employment to another in search of better prospects.

Although capitalism and the wage system have frequently been condemned by radical critics of the present order, it cannot be denied that labor's transition from status to freedom of contract was accomplished largely by the development of capitalism and the wage system. The evolution from serfdom to free peasantry was due, in large part, to the growth of capital and the wider use of money. Cash payments instead of payments in kind and in service were made for the use of land. As commerce increased and a money economy supplanted barter, cash wages were paid to labor.

The growth of towns also was associated with the rise of capitalism and the transition from status to contract. A runaway serf, who left his agricultural manor, fled to the town and became an artisan. If he lived for a year and a day in a free city, he became a free man. The medieval doctrine was "city air makes free."

**4. From Master and Servant Relationships to Those of Employer and Employee.**—Freedom of contract, which was gradually achieved by the workers, slowly found its way into the law of the land. At first, it was expressed in the common law and later in written statutes. But the early legal view of the relations between the two contracting parties was that of master and servant. The present legal concept of employer and employee is rather recent, as judged in the long perspective of history. Even today, labor law still affords some survivals of the former master and servant relationship.

The master and servant relationship was not anomalous in the days of the guilds, when an apprentice boy was expected to serve his master, as well as to learn his trade. Nor was it so bad in the days of the domestic system, when the family was still an economic unit and employment relationships were personal. But with the advent of the factory system and the increased impersonality of our modern economic life, such a legal concept became both antiquated and unjust.

**5. Nature and Types of Collective Bargaining.**—The term "collective bargaining" is as indefinite as are the terms "wage system" and "freedom of contract." In its broadest sense, collective bargaining may be defined as group rather than individual competition, and as agreements between organized associations rather than isolated individuals.

Specific practices of collective bargaining will be treated in Chaps. XIV and XV. After an analysis of the various weapons of collective bargaining, the question will be raised as to which, if any, are essential to effective collective bargaining.

The term collective bargaining may be used in its political and social settings, as well as in a purely economic sense. Moreover, even the economic aspects of collective bargaining transcend mere industrial disputes. Finally, collective bargaining may be used by capital as well as by labor, and by employers as well as by workers.

**6. Origins of Collective Bargaining.**—Although collective bargaining has been given new forms and an added importance by the changes of the industrial revolution, it is far older than modern industrialism. Indeed, collective bargaining is as old as, or even older than, capitalism and the wage system. It may be traced as far back as the medieval charters which the townsmen received from their local dukes or distant kings. These medieval charters of free cities were essentially collective contracts containing certain privileges and exemptions from their former feudal obligations. Moreover, the medieval guilds practiced collective bargaining and had mutual understandings or written agreements with their members as to the quality of their goods, their prices, output, and general working conditions.

**7. Medieval Guilds and Modern Trade Unions.**—Interesting comparisons can be drawn between the medieval craft guilds and the modern trade unions as associations for collective bargaining. Essential differences, however, lay in the former absence of power machinery, the factory system, and large-scale production. In an age of craftsmanship and production by hand tools, an apprentice expected to become a journeyman, and a journeyman had the practical possibility of becoming a master workman. Considerable skill, but only a moderate amount of capital, was necessary. Moreover, master and apprentice worked side by side in the same shop. Industrial relations were personal and even parental. There was a craft consciousness and a class conscious-

ness, but neither took the form of an alignment of laborers against capitalists. These differences in fundamental conditions must be remembered in comparing the collective bargaining of medieval craft guilds with that of modern trade unions.

**8. Coming In of Capitalism and Collective Bargaining.**—The close of the medieval period and the dawn of modern times witnessed the rise of commerce, the coming in of capitalism, and the development of foreign markets. Nationalism succeeded feudalism, and colonial empires ended local self-sufficiency. Kings and queens granted their royal favors to soldiers of fortune and merchant princes. National charters were later issued to trading companies for their distant enterprises. Great companies, such as the British East India Company, took the place formerly occupied by the trading guilds and the merchant adventurers. Many of the new trading companies possessed monopoly privileges from the very beginning.

As the principle of limited liability developed, the modern business corporation began to take its present form. Special charters were granted to banks, turnpike and canal companies, and later to the railroads. Although the power of collective action increased still further with the formation of modern industrial corporations, the right of association was freely granted to capital. Governmental hostility toward the collective action of capitalists was not expressed nearly so promptly as toward the collective action of workers. Indeed, governments formerly condoned and sometimes favored many of the monopolistic practices of early groups of capitalists.

On the other hand, as we shall now see, labor's first attempts at united action—collective bargaining—and even the very expression of the ancient right of free association were regarded with suspicion. Early trade unions were regarded as criminal conspiracies and bitterly opposed by the government.

**9. Organization of Workers Opposed under Both Mercantilism and Laissez-faire.**—The prevalent economic philosophy of early modern times was that of mercantilism, which favored the governmental regulation of commerce and industry. Powerful monarchs sought to regulate not only their foreign commerce, but also the prices of commodities and labor in the home markets. Thus the English Statute of Apprentices attempted to limit the wages of certain workers, just as other laws, such as the Assizes of Bread and Ale, sought to regulate the prices of certain important food staples.

On the other hand, the economic philosophy of *laissez-faire*, which was prevalent during the early decades of the nineteenth century, represented the doctrine of governmental non-interference with industry. Consequently, the problem of wage determination was viewed differently, although the actual result of both attitudes was similar, *viz.*, the keeping down of wages.

The classical economists contended that wages were limited by the supply of capital available for the subsistence of the workers. Any arbitrary interference with the results of the law of supply and demand was regarded as a futile and unwarranted attempt of organized labor to raise wages above a certain natural rate. Early trade unions in England, viewed by economists with disdain, were actively opposed by the government.

**10. Combination Acts and Conspiracy Doctrine.**—The Combination Acts were a series of laws passed by the British Parliament to prevent either employers or employees from combining to raise the prices of their commodities or services. The law proscribed specifically all agreements among workers to raise wages, to lessen the hours of work, or to improve conditions of employment. Justices of the peace were empowered to sentence to two months' imprisonment members of such combinations. Under these Combination Acts a number of labor leaders were imprisoned and others were deported to the convict colony of Australia.

Early trade unions in England were conspiracies under the common law, as well as under such specific statutes as the Combination Acts. As late as the opening of the twentieth century, a British Court pointed out the legal significance of collective bargaining in the following analogy which contains traces of the old doctrine of conspiracy.

"A grain of gunpowder is harmless but a pound may be highly destructive."<sup>1</sup>

**11. British Trade Union Acts.**—British statutes expressly forbidding trade unions were repealed in 1824, and in the following year an act was passed which gave legal recognition to collective bargaining. It was not until about a half century later, however, that trade unions acquired full legal sanction with the passage of the Trade Union Acts between 1871 and 1875.

In the Conspiracy and Protection of Property Act of 1875, it was declared that no act, which was not criminal if committed by an individual, was conspiracy when committed by two or more persons acting in combination. This law has been regarded as the Magna Charta of British trade unions, for it freed them from the shadow of the former doctrine of conspiracy.

In the opening year of the twentieth century, the British House of Lords rendered a famous decision in the Taff Vale case by assessing a union of railway workers for large damages done to the company because of violence during its strike. The newly won freedom of British trade unions was seriously threatened. But, in 1906, Parliament passed the Trade Union Disputes Act, which placed labor organizations on a plane of equality with employers' association, and which distinguished both such associations from merchant combinations to control prices.

<sup>1</sup> *Quinn vs. Leatham*, British Appeal Cases, p. 45, 1901.

The Trade Union Disputes Act relieved organizations both of employers and of employees from liability for damages from acts done in connection with trade disputes. Under the new law, the British court must discover and punish the individual criminals or conspiracy of criminals. It cannot diffuse the responsibility over the entire membership of the trade union which is a party to the industrial dispute in which the violence is perpetrated.

**12. Present Legal Status of Collective Bargaining in Great Britain.**—The present legal status of collective bargaining in Great Britain has been described as follows:

In the English law, there are no doubts as to the legality of labor unions or of employers' associations. Both the lockout and the strike are legal, as are the boycott and the blacklist. Parallel to the right of employers to get new workmen is the right of the strikers to picket peacefully and to induce them to abstain from working. England's policy is to allow both sides a free hand for a fair fight. It ignores the motives which underlie labor disputes. It does not interfere until the line of intimidation and violence has been crossed. This is a line definitely established by statute, and not left wholly to the courts. The British law has the merits of certainty and practicality.

The most radical departure in the British Trade Disputes Act must still be noted. It is the exemption of trade unions and employers' associations and their members from all responsibility in tort for wrongful acts alleged to have been committed in their behalf. This was Parliament's answer to the Taff Vale case. It made it impossible to maintain any damage suit against a trade union or an employers' association. This is a greater privilege than the limited liability of business corporations. The liability is not merely limited; it is removed *in toto*. Even though a union may be responsible for acts of violence, it cannot be sued for the damage it caused. Our courts hold the members of labor unions to the unlimited liability of partnerships; in England they are not liable at all.<sup>1</sup>

**13. Status of Collective Bargaining in the United States.**—There has been a striking contrast between the legal status of collective bargaining in the United States and Great Britain. Although American trade unions were not forced to go through such a severe and protracted struggle as did the English trade unions, they did not progress nearly so rapidly toward legal freedom and economic power here as in the mother country.

At the present time, the right of trade unions to exist in the United States is not denied, but in certain states labor organizations which are committed to syndicalism are illegal in themselves. Although the empty right of collective bargaining is not denied by the laws of any states, certain weapons of collective bargaining have been outlawed in many American states.

The old doctrine of conspiracy long continued to obscure the legal status of collective bargaining in the United States. Again, the question

<sup>1</sup> COMMONS, J. R., and J. B., ANDREWS, "Principles of Labor Legislation," rev. ed., pp. 133 and 134, 1927.

of motive has continued to play an important part in the legality of various labor disputes. Finally, labor organizations in the United States have not enjoyed the same freedom from legal responsibility for the acts of their members and sympathizers as in Great Britain. However, the Norris-La Guardia Act of 1932 sought to correct some of these difficulties and to improve the legal status of collective bargaining in the United States. Its chief features will be outlined in Chap. XV.

In this country, collective bargaining is restricted by constitutional, as well as by statutory, law. The courts are empowered to declare legislation unconstitutional. Many pieces of labor legislation have been held to be violations of such constitutional guarantees as that of the individual right of freedom of contract.

In the last place, laws concerning collective bargaining, like most other problems of labor legislation, fall within the residual powers of the individual states. Hence laws concerning the rights and powers of collective bargaining vary from state to state. This confusion is further increased by the variety of court decisions in different states. The Federal character of our American government, as well as its constitutional nature, has served to confuse the general status of collective bargaining. In Chap. XV, the various weapons of collective bargaining will be analyzed. It will be seen that some practices of labor organizations are legal in some states and illegal in others, as well as valid at one time and unconstitutional at another.

**14. Federal Legislation and Collective Bargaining.**—One of the few important economic powers of the Federal government, which is specifically granted to it in the Constitution, is that over interstate commerce. It can easily be seen that laws passed by Congress for the regulation of interstate commerce may affect also the legal status of collective bargaining. One of the most important illustrations is the Sherman Anti-trust Act of 1890.

Although trade unions themselves have not been regarded as combinations in restraint of trade, many practices of collective bargaining have been held by the courts to be unwarranted interferences with interstate commerce and combinations in restraint of trade. Thus the boycott maintained by the Danbury Hatters against the products of their employers was held in 1908 by the United States Supreme Court to violate the provisions of the Sherman Act. Under the provisions of this law, triple damages of about \$300,000 were awarded by the Court to the Loewe Hat Company.<sup>1</sup>

The Clayton Act of 1914 was originally heralded as the American Magna Charta of labor. It proclaimed that "the labor of a human being is not an article of commerce."<sup>2</sup>

<sup>1</sup> *Loewe vs. Lawler*, 208 U. S. 274, 24 Supreme Court 301, 1908.

<sup>2</sup> Sec. 6 of the Clayton Act.

In addition to this general platitude against a commodity theory of labor, the Clayton Act provided that the anti-trust laws should not be construed to forbid the existence of labor organizations or to restrain their members from carrying out "legitimate objectives." But the Sherman Act never had been interpreted as a denial of the right of labor organizations to exist, but rather as a restriction on certain weapons of collective bargaining. Moreover, this legalization of objectives, which were already legitimate, was as unnecessary as the declaration of the human character of labor was rhetorical and platitudinous.

The Clayton Act, however, did seek to remedy some of the weaknesses of collective bargaining under the Sherman Act. It sought particularly to strengthen labor's weapon of the boycott and to weaken the employers' weapon of the injunction. But, as will be shown in Chap. XV, the high hopes of labor leaders were not realized in either of these two particulars. The Clayton Act failed to clarify the legal status of labor organizations and to strengthen their weapons of collective bargaining.

**15. Collective Bargaining under National Industrial Recovery Act.**—The National Recovery Act of 1933 affirmed the right of labor "to organize and bargain collectively through representatives of their own choosing." The makers of this law regarded the organization of employees into effective and independent groups of workers to bargain collectively concerning wages and working conditions as desirable as the organization of employers into trade associations to bargain collectively concerning prices and trade practices. One was necessary to balance the other.

Labor leaders immediately hailed this legal sanction of collective bargaining as another Magna Charta of Labor. Mr. Lewis, president of the United Mine Workers of America, called it the greatest advance in the legal status of labor since the Emancipation Proclamation.

Numerous labor leaders attempted to interpret Sec. 7a in the National Recovery Act as a vindication of the closed shop, walking delegates, and various weapons of collective bargaining, to be discussed later. They sought to capitalize it by a comprehensive recruiting campaign for their own organizations, particularly those affiliated with, or cooperating with, the American Federation of Labor, the largest and most powerful organization of workers.

On the other hand, employers insisted that company unions, or associations of their own employees, were organizations practicing collective bargaining within the meaning of the new law. To offset such an interpretation, laws were introduced into Congress to outlaw company unions. Meanwhile, it was necessary for government officers to supervise elections in order to determine whether or not coercion had been exerted and what organizations of workers were truly representative.



In some cases, it was necessary to deal with two or more organizations within the same plant.

The text of the famous, or infamous, Sec. 7a of the National Industrial Recovery Act follows.

Every code of fair competition, agreement, and license approved, prescribed, or issued under this title shall contain the following conditions: (1) That employees shall have the right to organize and bargain collectively through representatives of their own choosing, and shall be free from interference, restraint or coercion of employers of labor, or their agents, in the designation of such representatives, or in self organization, or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection, (2) that no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing or assisting a labor organization of his own choosing, and (3) that employers shall comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment approved or prescribed by the President.

**16. Nature and Significance of Doctrine of Conspiracy.**—The doctrine of conspiracy is of more than mere historical significance in connection with collective bargaining in the United States at the present time. Consequently, it is highly important to have clearly in mind the essential nature of a conspiracy and to be able to distinguish between lawful combinations of labor and unlawful conspiracies. The following court decision clearly defines a conspiracy:

A conspiracy is a combination of two or more persons, by some concerted action, to accomplish some criminal or unlawful purpose, or to accomplish some purpose, not in itself criminal or unlawful, by criminal or unlawful means.<sup>1</sup>

One of the most serious features of a conspiracy is the fact that all members of it are held responsible for the acts of all fellow conspirators in seeking their common ends. On the other hand, the doctrine of limited liability and the legal fiction of the corporation as a fiduciary person make it possible for individuals in business not only to restrict their financial responsibility, but also to escape the consequences of many of their actions by passing them on to the corporation which can be fined, but which cannot be imprisoned.

A combination of workers to raise wages, which was originally regarded as conspiracy, is now viewed as legal. If it can be shown, however, that a combination of workers exists for the express purpose of injuring an employer or a group of employers, such a labor organization is an illegal conspiracy. The same is true of the organization if it accomplishes or seeks to accomplish a legitimate objective, such as higher wages, by unlawful means, such as the destruction of the employer's machinery.

<sup>1</sup> *Commonwealth vs. Hunt*, 4 Metcalf 111, Massachusetts, 1842.

If workers agree to destroy the plant of their employer, such an agreement is a conspiracy. If they agree to destroy his business, his reputation, his good will, or some other intangible asset, such an agreement may likewise be held to constitute a conspiracy. But if the aim of the workers is something legitimate, such as increased wages, shorter hours, higher standards of living, or improved working conditions, and the employer's business reputation or good will is injured incidentally, such an agreement is not conspiracy. Motive in law, rather than in fact, determines the question of guilt.

This limitation of the doctrine of conspiracy, if not its total elimination from the legal status of collective bargaining, has been a slow process. In the early decades of the eighteenth century, American juries frequently held combinations of the workers to raise wages to be illegal conspiracies. During the thirties, however, a change in public opinion took place, and many juries failed to find such combinations to be illegal conspiracies. Finally, in 1842, the Massachusetts Supreme Court held that even a strike to secure the closed shop was legal.<sup>1</sup>

The labor disturbances which followed the Civil War were accompanied by a revival of the doctrine of conspiracy. The insistent demands of the wage earners, however, finally led to the repeal of the old conspiracy laws in many states and to the passage of laws in several industrial states which specifically legalized combinations of workers to raise wages and to reduce the hours of labor. Nevertheless, relief from the old conspiracy doctrine, similar to that which has been enjoyed by British labor organizations, was not obtained in the United States until the passage of the Norris-LaGuardia Act in 1932.

**17. Collective Bargaining and Property Rights.**—Although the attempt to indict labor organizations as conspiracies has weakened, a new legal doctrine has been found to take its place. This has been discovered in the gradually developing concept of business as property. Good will or the established relationship of a going concern has come to be regarded by the American courts as property. Moreover, the concept of property has been extended to cover the right "to enter and do business." Such a legal view is important to the student of collective bargaining, for it involves unhindered access to the commodity and labor markets.

Labor disturbances may threaten the destruction not only of physical wealth, but also of intangible rights, among which are the right to do business. Strikes may destroy the good will of an enterpriser, boycotts may prevent his selling goods by denying him full access to commodity markets, and picketing may interfere with his right to do business by restricting his right to enter the labor market.

In view of this broadening concept of business as property, the courts have extended the use of the injunction to prevent not only the destruc-

<sup>1</sup> *Commonwealth vs. Hunt*, 4 Metcalf 111, Massachusetts, 1842.

tion of human life and material wealth, but also the impairment of intangible rights, such as the right of doing business. The general problem of the use of injunctions in labor disputes will be discussed in Chap. XV. It is to be noted here merely that the injunction was recently playing the same important role in conditioning the legal status of collective bargaining and its weapons that had formerly been taken by the doctrine of conspiracy.

**18. Legal Responsibility of Labor Organizations.**—It will be remembered that the British law provides that nothing which is done in connection with labor disputes, which is legal when done singly, is to be regarded as illegal when done collectively. Prior to the passage of the Norris-La Guardia Act in 1932, such legal immunity did not exist in the United States, where many actions, which were legal when done individually, were not legal when done collectively. Illustrations were certain types of boycotts and strikes, even though peacefully conducted. When damages were awarded by the courts in such cases, legal responsibility might be placed on the trade union itself, in lieu of, or in addition to, individual responsibility.

Moreover, when labor disputes were accompanied by acts of violence, the question as to the legal responsibility of the labor organization was an even more serious problem. The destruction of property during labor disputes has generally been done by irresponsible individuals, within or without the union, rather than by the labor organization as a group. Nevertheless, damages against suspected unions, rather than convicted individuals, have been awarded and enforced by American courts.

On the other hand, if labor organizations enjoyed complete immunity from acts of violence and deeds of destruction growing out of labor disputes, it would be easy for their angry members to terrorize employers into granting their demands. Even under ordinary conditions it is not easy to apprehend and to convict criminals. During a labor dispute, popular opinion frequently sides with the workers against the capitalists, so that arrests, evidence, and convictions are difficult to obtain.

In cases of civil suit rather than criminal action, the individual who is sued is apt to have so little wealth that adequate damages for the losses sustained are frequently out of the question. The only redress of the injured employer is to attach the funds of the union and to hold the labor organization responsible, as far as possible, for the material or immaterial damages done by its officers, members, or sympathizers.

An important court decision in the matter of the responsibility of labor organizations was that of the Coronado Coal Company against the United Mine Workers. Considerable destruction of mining property was done by a mob during a strike in Arkansas. Accordingly, the Coronado Coal Company brought suit under the provisions of the Sher-

man Act against the United Mine Workers for damages of over a half million dollars, in addition to criminal prosecution of those individuals charged specifically with the perpetration of unlawful acts of violence.

Although the United States Supreme Court absolved the international union of miners, it placed the responsibility for damages on District 21 of the United Mine Workers which embraced the states of Arkansas, Oklahoma, and Texas. The case<sup>1</sup> dragged on for years, but it finally established the principle that labor unions and their individual members were responsible almost without limit for all unlawful acts of the union officers and agents whom they had in any manner authorized or sanctioned. Continuous membership in the union, after publicity had been given to the unlawful acts done in its behalf, was sufficient of itself to constitute approval thereof.

Labor leaders bitterly resented this Supreme Court decision as to the responsibility of labor organizations in industrial disputes. They pointed out that leaving the union often involved a loss of insurance benefits, the termination of numerous friendly associations, and, perhaps, the elimination of the only organization for collective bargaining in its field. Although there are good reasons why members of trade unions should be less responsible than stockholders in a corporation for the acts of their officers or agents, this court decision made them even more responsible.

Such court decisions as that rendered in the Coronado case were bitterly criticized by labor leaders and liberal statesmen. As a result of popular agitation and education, the Norris-LaGuardia Act was passed by Congress in 1932. This law, to be discussed later in Chap. XV, decreased the responsibility of labor organizations and improved the status of collective bargaining.

**19. Incorporation of Trade Unions.**—The right of incorporation, which is possessed by labor organizations, is rarely used by them. Although most states permit the incorporation of trade unions and the Federal government has authorized the incorporation of national unions, such a policy has generally been opposed by labor leaders. They have feared that incorporation would facilitate the attaching of the funds of trade unions after the rendering of such unfavorable verdicts as those of the Danbury Hatters or the Coronado Coal Miners. Moreover, it has been felt that trade unions might be made more vulnerable to court injunctions.

On the other hand, employers have advocated, and indeed they have insisted on, the incorporation of labor organizations as a means of increasing labor's responsibility. They have felt that the incorporation of trade unions would facilitate the prosecution of suits for breach of contract

<sup>1</sup> *United Mine Workers vs. Coronado Coal Company*, 259 U. S. 344, 42 Supreme Court 520, 1922; *Coronado Coal Company vs. United Mine Workers*, 268 U. S. 295, 45 Supreme Court 551, 1925.

and increase the possibility of the collection of damages, if awarded to the employer against a labor organization.

The extent to which incorporation would increase the responsibility of labor organizations is doubtful. At present, it is possible for an unincorporated union to be sued in the courts for a breach of contract or for a violation of the law. A verdict may be rendered and damages awarded against an unincorporated union. Some or all of its individual members may be held liable, in whole or in part, for these damages. It will be remembered that incorporation generally carries with it limited liability. It may be more difficult to collect damages from a responsible but fundless corporation, which can go through bankruptcy, than from numerous individuals in moderate circumstances.

In the Danbury Hatters Case of 1908, an unincorporated union was adjudged guilty of being a combination in restraint of trade because of the boycott which it fostered against the Loewe Hat Company. Triple damages of \$300,000 were awarded under the provisions of the Sherman Act against the funds and members of this unincorporated union. The judicial decision in the case of the United Mine Workers against the Coronado Coal Company, in 1922, further established the principle that unincorporated unions might be sued for the acts of their agents, and that union funds might be attached for damages when awarded. Thus it would seem that the failure to incorporate may confuse, but it cannot eliminate, the financial responsibility of trade unions.

**20. Collective Bargaining of Labor and Capital Compared.**—Collective bargaining by workers is very different from that by business enterprisers. The contrast has been expressed as follows:

The issue of the desirability of collective bargaining by labor is much confused by the parallel of the combinations to control prices. Combinations to monopolize commodities are against public policy; why then should labor unions be favored in the law? This parallel overlooks the vital distinction between commodities and labor. The "commodity" labor can never be divorced from the human being, the laborer. The labor contract is a bargain, not only for wages, but also for hours of labor, physical conditions of safety and health, risks of accident and disease. Labor cannot be placed upon the same plane with commodities, which are external and inhuman. It is in the interest of the public that the most favorable conditions of labor shall prevail. Since labor constitutes such a large part of the public, the general welfare depends intimately upon its advancement. While the public suffers from high prices, it benefits from high wages.<sup>1</sup>

The economic aspects of collective bargaining by the workers are very different from those of their employers. Not only is labor a perishable "commodity," but the individual and collective resources of the workers

<sup>1</sup> COMMONS, J. R., and J. B. ANDREWS, "Principles of Labor Legislation," rev. ed., p. 126, 1927.

are far less than those of their employers. Their relatively propertyless condition and the loss of ownership of the instruments of production by the workers result in inferior bargaining power, even though they are organized.

**21. Wage Usages and Wage Contracts.**—Whereas individuals, real and fiduciary, make contracts, trade unions do not do so in their collective bargaining. Trade agreements, for illustration, merely record mutually acceptable trade usages. Although these agreements define wages, hours, and other issues, they are not contracts. Although individuals contract with reference to trade agreements or usages, the contracting parties are the employer and the individual employees.

Trade unions are not business organizations, like industrial corporations, for they have nothing to sell and they are not organized for profit. Although an individual laborer sells his services, the trade union to which he belongs has not agreed to furnish a certain number of workers on the terms agreed.

Its function is to induce employers to establish usages in respect to wages and working conditions which are fair, reasonable, and humane, leaving to its members each to determine for himself whether or not and for what length of time he will contract with reference to such usages.<sup>1</sup>

**22. Wage Bargaining and Price Bargaining.**—The economic differences between the collective bargaining of business corporations and trade unions have been expressed as follows:

The modern corporation has taken over both of the bargaining functions of the masters of old: the *price bargain* and the *wage bargain*. In the first the corporation performs the *merchant* function, and its object is to get as high prices as possible from the consumer. In the second it performs the *employer* function, and its object is to give as low wages as possible to laborers.

Collective action by capital has not stopped with the corporation. The corporations themselves have become members of associations. In these associations it has generally been found advantageous to separate the two bargaining functions. *Manufacturers' associations*, "pools," and "trusts" are formed to deal with the price of products to consumers. *Employers' associations* deal with the wages paid to labor. Practically the same individuals may compose these associations; but their functions are totally different.<sup>2</sup>

The legal significance of this important economic distinction follows:

That capital and labor should be treated equally is a proposition fundamental to American law. But the dual bargaining functions of capital must be distinguished. The *price bargain* is something very distinct from the *wage bargain*. Trade unions do not deal with consumers at all. Their function is to offset the

<sup>1</sup> *Hudson vs. Cincinnati, N. O. & T. P. R. Co.*, 152 Ky. 711, 154 S. W.

<sup>2</sup> COMMONS, J. R., and J. B. ANDREWS, "Principles of Labor Legislation," rev. ed., p. 100, 1927.

advantage the employer enjoys in bargaining about wages with the individual laborer. Equal protection of the law does not consist in treating a trade union like a *manufacturers' association* but in treating it like an *employers' association*. This is not class legislation but sound classification.<sup>1</sup>

It would seem, then, that trade unions should be regarded legally and economically as comparable with employers' associations, and not as comparable with manufacturers' associations, business concerns, or capitalistic monopolies. Neither labor organizations nor employers' associations, as such, are to be regarded as combinations in restraint of trade.

Although the law may object to certain weapons as illegal and to various policies as uneconomic, the state should not restrict the right of either side to organize, although forced to regulate the methods of collective bargaining. Social justice is advanced by minimizing glaring differences in bargaining power by facilitating the organization of the weaker party. Unfortunately, such has not always been the case.

**23. Spheres of Legislation and of Collective Bargaining.**—Labor organizations were at first primarily concerned with wages, hours of work, and the right of collective bargaining. They seemed singularly indifferent to general working conditions, especially to the conditions of employment of unorganized groups. It was state legislation, rather than trade unionism, which attacked such maladjustments as dangerous trades, child labor, and unsanitary living conditions. Of recent years, however, labor organizations have become vitally interested in these broader problems.

On the other hand, it would seem to be equally true that the raising or maintaining of wages has been achieved by collective bargaining, rather than by state legislation. This is particularly true of the United States as compared with numerous other countries in which wage legislation has been passed. It is especially true in the case of adult male workers, with whose wages the state has been even more reluctant to interfere than with their hours and working conditions.

The existence of labor organizations, at least among the skilled adult male industrial workers, has made the extension of the police power of the state not so necessary in their case as in that of women and children, whose inferior bargaining power has placed them in even greater danger of exploitation. The freedom of contract of adult male workers, especially in the matter of wage determination, has rarely been challenged successfully in this country by state legislation.

In general, the government has interfered only to prevent fraud in the payment of the wages. Numerous states have legislated as to the manner of wage payments, but almost never have they legislated as to

<sup>1</sup> *Ibid.*, p. 128.

the amount of wages to be paid adult male workers. Thus laws have been passed to make illegal the payment of wages in script rather than in cash. If the worker were paid in script or company labor checks, he might be forced to buy at the company store. By the payment of wages in script, which could be exchanged only for the goods or services of the company, profiteering was very easy.

States have legislated also against the withholding of wages from the worker. Employers have often been compelled under the law to pay wages regularly and at fairly short intervals. Delay in the payment of wages may occasion severe hardship to the workers. Again, the withholding of wages may force the worker to become hopelessly in debt, sometimes at ruinously high rates of interest and in unjust amounts. If carried to the extreme and accompanied by an extension of credit on the part of the company store, a condition of peonage may result. By means of chronic indebtedness and the possibility of imprisonment for vagrancy, if escape were sought by flight, the Mexican peon and the southern Negro have often been held to enforced labor which savors very much of involuntary servitude.

**24. Summary.**—Class struggle and the exploitation of the workers are far older than capitalism and the wage system. Slavery and serfdom represent conditions of status, in which one's social and economic positions are determined by birth. Freedom of contract constitutes the opposite legal concept. In modern times, status has given way to freedom of contract. Still more recently the legal concept of freedom of contract has changed from its former master and servant relationship to the present employer and employee relationship.

Collective bargaining may be used in a political and social sense, as well as in its common economic interpretation. There may be collective bargaining among employers as well as among employees. Although collective bargaining among merchants and employers is fairly old, that of industrial workers is relatively modern. The early attempts of the workers at collective bargaining and even at group organization were bitterly suppressed.

A conspiracy is a combination to accomplish something illegal or to accomplish a legal objective in an illegal manner. Early trade unions in England and America were regarded as criminal conspiracies. Although the British law has now freed labor organizations to a considerable degree from the charge of conspiracy, such is not the situation in the United States where they enjoy less legal immunity.

The legal status of collective bargaining, which in the United States falls within the residual or unspecified powers of the Federal Constitution, is confused by the different state laws on the subject. The various interpretations of the state and Federal courts have made the problem even more complex.



The chief Federal power over collective bargaining is that of interstate commerce. Under the provisions of the Sherman Act, labor organizations have been indicted as combinations in restraint of trade when they resorted to certain weapons of collective bargaining.

Trade unions are comparable to employers' associations. Both are to be distinguished from merchant associations which are interested primarily in the prices of commodities rather than in the wages of labor.

Labor unions generally possess the right of incorporation, but they rarely use it. However, unincorporated unions may be sued and held responsible for damages assessed against them.

In modern labor disputes the injunction has taken the place which was formerly held by the doctrine of conspiracy. It was fairly easy for employers to secure from the courts injunctions restraining laborers or their sympathizers from acts of intimidation or deeds of destruction. Moreover, the legal concept of property rights has been extended from that over material goods to that of good will and the right to do business in an unmolested manner.

Economic progress may be achieved by legislation, by collective bargaining, and by the efforts of socially minded individuals. The study of the achievements of labor legislation and labor organization is supplementary, for economic maladjustments can be attacked by the state from without, as well as by the workers from within, industry. Thus there are both the political approach of legislation and the economic approach of collective bargaining.

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#### Questions for Discussion

1. Distinguish between status and freedom of contract.
2. Distinguish between slavery and serfdom.
3. Compare the medieval guilds with modern trade unions as associations for collective bargaining.
4. What is a conspiracy?
5. Show its importance in labor disputes.
6. Compare the present legal status of collective bargaining in Great Britain with that in the United States.
7. What factors serve to confuse the legal status of collective bargaining in the United States?
8. What were some effects of the Sherman Act on labor organizations and collective bargaining?
9. What did the Clayton Act accomplish in these respects?
10. In what ways may an extension of the right of collective bargaining affect property rights?
11. To what extent are trade unions responsible for damages?
12. Distinguish labor organizations and employers' associations from associations of merchants. Is this a valid and valuable distinction?
13. Compare the collective bargaining rights of labor and capital.
14. Differentiate between the spheres of legislation and collective bargaining in the United States.

#### Topics for Investigation

1. Economic factors in the struggles between Roman patricians and plebeians.
2. Economic factors in the peasants' revolts of the medieval period.
3. Stages of economic history as interpreted by Karl Marx.

4. Collective bargaining before the industrial revolution.
5. Early English conspiracy trials of labor leaders.
6. Concept of the right to do business as a property right.
7. Incorporation of trade unions.
8. Effect of Norris-La Guardia Act of 1932 on status and responsibility of labor organizations.

## CHAPTER XIII

### DEVELOPMENT OF LABOR ORGANIZATIONS AND EMPLOYERS' ASSOCIATIONS

#### THE PARTIES TO COLLECTIVE BARGAINING AND THE PRESENT INDUSTRIAL ALIGNMENT

**1. Types of Labor Organizations.**—Labor organizations are associations of workers for the purpose of improving their economic and social conditions. They may be classified according to either their form of organization or their functions. From the former point of view, it may be said that there are three structural types of labor organizations: (1) labor unions, (2) trade unions, and (3) industrial unions.

The significance of labor unions, in the strict sense of the words, is chiefly historical, and the Knights of Labor may be taken as the best illustration of this type of labor organization. Into the labor union were welcomed all classes of workers. Indeed, professional men and even employers themselves were sometimes admitted. The labor-union movement, which embraced many of the early labor organizations in this country, was humanitarian and idealistic. Instead of the strike and boycott, reliance was placed on education, social reform, cooperation, and political activity.

The trade union is essentially an association of the workers of one trade or craft. Although there may be federations of trade unions, each individual trade union preserves its own independent organization and autonomy of action. Trade unionism is essentially utilitarian in its aims and exists primarily for the purpose of collective bargaining. Reliance is placed on the strike and other economic weapons rather than on political action. The United Brotherhood of Carpenters and most member organizations of the American Federation of Labor are illustrations of trade or craft unions.

The industrial union, unlike the trade union, cuts across craft lines. It seeks to unite all workers in an industry into a coherent and centrally controlled organization. Class consciousness and group solidarity, rather than a narrow trade unionism or a broad humanitarianism, are stressed. The unskilled, as well as the skilled, workers are admitted into industrial unions, for they are not organized along craft lines.

Craft unions are vertical organizations, whereas industrial unions are horizontal in character. Perhaps a better figure would be a series of three concentric circles, the smallest inner circle representing trade

unions, the next larger middle one industrial unions, and the largest outer circle representing labor unions. Both figures are illustrated by Chart 43.

Although the United Mine Workers' Union is associated with the American Federation of Labor, it is an industrial, rather than a trade, union. All workers in mines, irrespective of occupation or degree of

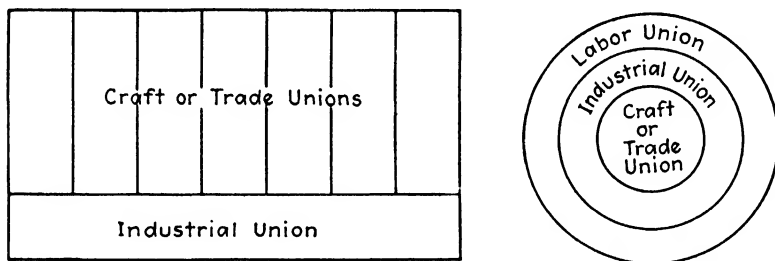


CHART 43.—Types of labor organizations.

skill, may become members of that organization. The Industrial Workers of the World, as its name implies, is another industrial union. It will be indicated later that it is far more radical in its aims and methods than the United Mine Workers or the American Federation of Labor.

Organizations of labor have been classified also as follows: (1) business unionism, (2) friendly or uplift unionism, (3) revolutionary unionism, and (4) predatory unionism.<sup>1</sup> It will be seen that the results of these two classifications are somewhat similar.

Business unionism is another way of expressing the immediate and utilitarian objectives of trade unionism, such as increased wages for a particular group of workers. Friendly or uplift unionism is also relatively conservative, but it is more general in its appeal and more idealistic in its aims than is trade unionism. Just as business unionism corresponds roughly to trade unionism, so friendly or uplift unionism may be illustrated by labor unions in the strict sense of the term.

Revolutionary unionism, as illustrated by the Industrial Workers of the World, stresses class rather than craft consciousness. It calls on all the workers to unite in an attempt to overthrow capitalism and to escape from the bondage of the wage system. Revolutionary unionism includes certain groups of socialists, who would establish a collectivism by political action, and syndicalists, who would establish an industrial commonwealth by direct action and economic weapons.

Predatory unionism has been interpreted as "business unionism gone wrong."<sup>2</sup> Like the political machine in a number of our cities, predatory unionism is corrupt and boss ridden. Without definite aims, its course

<sup>1</sup> HOXIE, R. F., "Trade Unionism," rev. ed., pp. 44-52, 1923.

<sup>2</sup> CARLTON, F. T., "History and Problems of Organized Labor," p. 105.

of action is expediency and opportunism. Predatory unionism has sometimes been characterized by violence and terrorism.

Another classification of organized labor at the present time is into the following four groups: The largest consists of unions within the American Federation of Labor, which in 1934 boasted a membership of about 4,000,000. A second group is made up of unions not belonging to the American Federation of Labor but closely cooperating with it, including such organizations as the Big Four railroad brotherhoods with their membership of about 400,000. A third group, numbering from 200,000 to 300,000, embraces those unions which are not hostile to the American Federation of Labor, but which do not actively cooperate with it. This group includes the Amalgamated Clothing Workers, whose organization and policies differ somewhat from those of the American Federation of Labor. The fourth group consists of labor organizations, such as the Industrial Workers of the World, which not only differ in aims and organization from the American Federation of Labor but are definitely hostile to it.<sup>1</sup>

All these classifications omit company unions, which are organizations of the workers of a particular plant or business concern. They follow the financial or corporate organization of the employer. Because they have been organized by management or have been friendly, and even subservient, to it, company unions are not regarded favorably by organized labor and are not ordinarily classified with it.

**2. Early Trade Unions in America.**—Colonial America was largely agricultural, and the labor supply was augmented by slaves and indentured servants. Manufacturing did not establish itself until about the time of the War of 1812. The large-scale industrialism of the United States did not begin until the period of the Civil War. Nevertheless, even before the advent of the factory system, numerous craft organizations of skilled workers had developed in many of our larger towns and cities. It was not until after the first quarter of the nineteenth century, however, that these organizations of labor became significant in our national life.

The modern trade union or association of allied and organized crafts of workmen may perhaps be said to have originated with the Mechanics' Union of Trade Associations in Philadelphia, in 1827. Similar organizations were formed in other cities, and the movement was reflected in the development of local labor parties in a number of states. A National Trades Union held its first annual convention in 1834. Carpenters, cordwainers, printers, and other skilled mechanics were organized into their respective national trade unions.

Early labor organizations expressed themselves vigorously against imprisonment for debt, convict labor, and sweatshops, and in favor of

<sup>1</sup> FELDMAN, H., "What Is Unionism's Future?" *New York Times*, Apr. 8, 1934.

the ten-hour day, free schools, and mechanics' lien laws. The early trade-unionist movement in America, however, lost its identity in the general uplift and humanitarian movements of the ante bellum period. It was a time of reformers and antislave agitators, and the air was full of utopian schemes such as that of Brook Farm.

The great industrial development which followed the Civil War was accompanied by an organization of labor on a vaster scale than ever before known in America. Every large city had its trades' assembly composed of all the organized crafts. In 1886 was formed the National Labor Union which held annual conventions for the following six years.

**3. Knights of Labor.**—The Noble Order of the Knights of Labor was founded by a tailor in Philadelphia on Thanksgiving Day, 1869. At first it was a secret organization with a rather elaborate ritual. This was soon abandoned as the movement spread from the garment workers to those of other trades.

Moreover, the Knights of Labor ceased to be a local organization, as its ideal quickly expanded into that of an amalgamation of all workers into one great labor union. For a decade or two, the Knights of Labor was a powerful force in our national life, but its zenith was reached in 1886, when its membership amounted to over a half million workers.

The original policy of the Knights of Labor was to discourage strikes and boycotts. It relied chiefly on educational and political action rather than on these economic weapons. Through cooperative means and a campaign of education, it hoped to abolish the evils of the wage system and to substitute a cooperative commonwealth.

The governmental machinery of the Knights of Labor was very highly centralized; and internal dissensions soon arose among the local labor unions. Its membership and influence gradually waned. The brief reign of the Knights of Labor is now merely a historical landmark in the evolution of labor organizations in the United States.

**4. Origin of American Federation of Labor.**—The American Federation of Labor was begun in 1881, but it was reorganized under its present name in 1886. It began as a reaction against the idealistic and centralized labor unionism of the Knights of Labor and in favor of the more practical objectives and independent organization of trade unionism. The later disintegration of the once-powerful Knights of Labor discouraged political activity on the part of organized labor and encouraged reliance on itself and on its own weapons of collective bargaining. Out of these circumstances and with these policies in mind, the American Federation of Labor was born.

**5. Growth of American Federation of Labor and Decline of Knights of Labor.**—At the time of its inception in 1881, the affiliated national unions of the American Federation of Labor possessed a membership of only 40,000, but during the next five years this number more than

tripled, for at the time of its reorganization in 1886 the American Federation of Labor boasted a membership of 138,000. During this same five-year period, however, the Knights of Labor had increased in membership from slightly over 19,000 in 1881 to almost 703,000 in 1886, *i.e.*, more than ten times as rapidly as the American Federation of Labor.

Between 1886 and 1893, however, this situation was completely reversed. Membership in the Knights of Labor decreased rapidly from its high-water mark of almost 703,000 in 1886 to only 75,000 in 1893. On the other hand, membership of the American Federation of Labor increased steadily from 138,000 in 1886 to 260,000 in 1893. In these predepression years, the Knights of Labor had dwindled to almost one-tenth of their maximum size, whereas the American Federation of Labor had almost doubled in membership.

The Knights of Labor failed to survive in any substantial numbers the depression of 1893 and the years immediately following it. The American Federation of Labor, however, suffered merely a slight recession. Its membership fell from 275,000 in 1894 to 265,000 in 1896 and 1897.

**6. Later Developments of American Federation of Labor.**—In the closing years of the past century and the opening years of the present century, the American Federation of Labor increased rapidly and vigorously in membership from slightly more than 250,000 in 1897 to over 1,500,000 in 1904.

In the five-year period from 1904 to 1909, membership in the American Federation of Labor failed to show any definite trend and fluctuated slightly around 1,500,000.

From 1909 to 1914, inclusive, membership in the American Federation of Labor increased steadily from slightly less than 1,500,000 to slightly over 2,000,000.

Although 1915 saw a slight temporary recession in its membership, the American Federation of Labor prospered greatly during the World War and the years of continued inflation and prosperity immediately followed it. In 1916, membership was again over 2,000,000, in 1919 it was over 3,000,000, and in the following year over 4,000,000. In the short space of this five years from 1915 to 1920, membership in the American Federation more than doubled.

The year 1920 witnessed the high-water mark of the American Federation of Labor when its membership was slightly over 4,000,000. The depression which followed resulted in a decline in 1921, a serious fall in 1922, and another decline in 1923 to slightly less than 3,000,000.

After the first postwar depression, membership in the American Federation of Labor remained fairly stable, declining slightly until 1927, rising thereafter slightly to 1930, but for the entire period remaining fairly constant at slightly less than 3,000,000. It is important to observe,



however, that these years of prosperity, unlike those in its earlier history, failed to bring a large increase in membership.

The depression of 1929 to 1933 resulted in a serious decrease in membership in the American Federation of Labor. Although not perceptible in the first year or two, the decline in membership was especially rapid in 1932 and 1933, by which year it had fallen to slightly over 2,000,000.

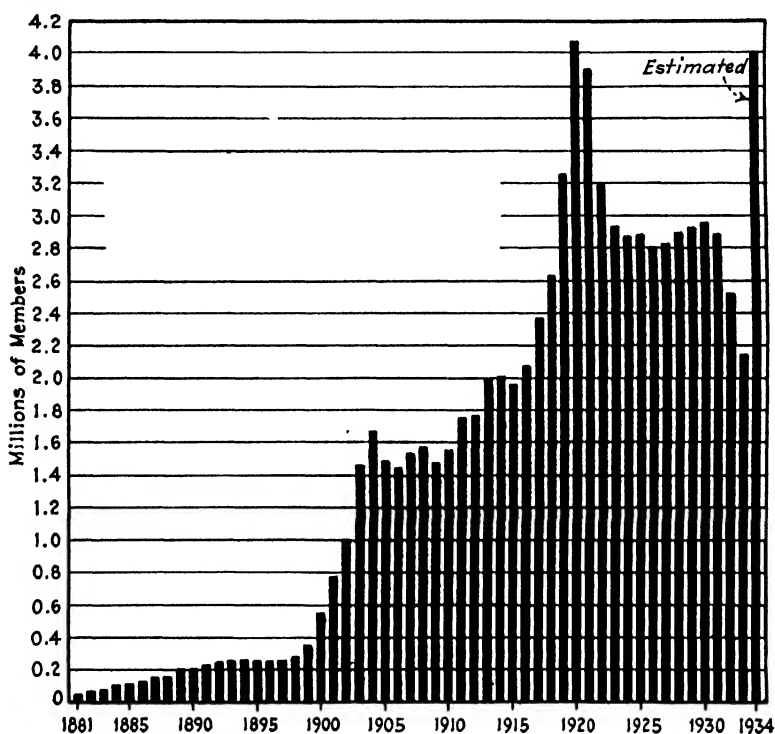


CHART 44.—Membership in American Federation of Labor (1881 to 1934). (*Reproduced from New York Times, Sunday, April 8, 1934.*)

The enactment of Sec. 7a in the National Industrial Recovery Act of 1933, which legalized collective bargaining, immediately changed the entire situation. Within about one year after the passage of this so-called "Magna Charta" of labor, membership in the American Federation of Labor almost doubled, jumping from a little over 2,000,000 to about 4,000,000.

Chart 44 pictures the growth of membership in the American Federation of Labor from its inception in 1881 to the first year after the passage of the National Industrial Recovery Act. The ebb and flow of its membership and the various periods of growth, decline, and stagnation are apparent.

**7. Organization of American Federation of Labor.**—The form of organization of the American Federation of Labor is that of a loose affiliation of slightly over a hundred national and international trade unions.<sup>1</sup> A detailed study of the American Federation of Labor is impossible in this text, but it is important that the student observe behind its great complexity of structure the variety of organization and the freedom of action which is possible.

Samuel Gompers, the late president of the American Federation of Labor, defined it as follows:

The American Federation of Labor is a federation of organizations, each of which has its own government, determined by its own needs and requirements, the result of the experiences of the members of the organization. The right to self-government was recognized in the beginning and has been reaffirmed and adhered to as consistently as possible. The federation has no powers except those which are authorized and conceded by the organizations which compose it. These powers are enumerated in its written constitution and in the definite direction of the convention.<sup>2</sup>

The local trade union is to the American Federation of Labor what the cell is to a biological organism, for it is the basic unit of the entire trade-union organism. With this as the starting point, the process of combination may be vertical, horizontal, or both. The locals are required to join the national unions of their respective trades. Sometimes there are also state and international trade unions. At the same time, a local trade union may affiliate itself with the central labor union of the town or city in which it is located. In such a case the combination is termed a "Federal trade local." Where the workers in any one craft are too few in numbers to form a local for any one particular trade, they may ignore craft lines and organize as a Federal labor union.

The national or international trade union is an important unit, for sovereignty lies in the national trade union, rather than in the American Federation of Labor. Strong national trade unions maintain experienced organizers, create their own locals, and issue charters. Sometimes they render financial assistance to struggling locals, but at other times they discipline and even suspend them for going against the general policy of the national trade union and the American Federation of Labor.

The annual convention of the American Federation of Labor is important. Officers are elected, problems are discussed, and policies are formulated. Each national trade union is represented by one delegate for each four thousand paid-up members or fraction thereof. One delegate each is allowed state federations, city centrals, Federal labor

<sup>1</sup> In 1933, the American Federation of Labor consisted of 106 national and international (United States and Canada) unions, representing 26,362 local unions, 4 departments, 49 state branches, and 619 city centrals.

<sup>2</sup> GOMPERS, S., "Labor and the Employer," chap. 1.

unions, and Federal trade locals. Numerous fraternal organizations also are represented. There is elected annually an executive council, consisting of a president, numerous vice presidents, a secretary, and treasurer. It is this executive council which carries on the work of the American Federation of Labor from one annual convention to another. Permanent headquarters are maintained in Washington from the revenue derived from a per capita assessment on the membership of the affiliated bodies.

**8. American Federation of Labor in Relation to Trade Unionism in General.**—The American Federation of Labor is only a part of the general trade-unionism movement of this country, although numerically the most important part. However, trade unionism includes some important but independent trade unions not affiliated with the American Federation of Labor. Thus the Amalgamated Clothing Workers, the American Textile Workers, and the Railroad Brotherhoods are independent craft or trade unions.

On the other hand, the American Federation of Labor includes a few unions which are industrial in character, rather than organized strictly along trade-union lines. The United Mine Workers of America is the outstanding illustration of an industrial union affiliated with the American Federation of Labor.

Fluctuations in the composition of the American Federation of Labor, due to the formation of new affiliations or the breaking of old ones, are frequent. Hence the strength of the trade-unionist movement in this country cannot be inferred merely from membership figures of the American Federation of Labor. Total trade-union membership has been about 25 per cent greater than that of the American Federation of Labor. However, the following section will disclose that trade unionism in general has experienced the same broad movements undergone by the American Federation of Labor in particular.

**9. Growth of American Trade Unionism during Present Century.** The growth of American trade unionism in general during the past century can be divided into the following periods. They are similar to those just observed in the history of the American Federation of Labor.

1. Growth from 500,000 members to over 2,000,000 took place during the period of prosperity from 1897 to 1904, which followed the depression of 1893, and which marked the change from a generation of falling prices to one of rising prices.

2. American trade unionism experienced a period of hesitation or maturity from 1904 to 1909, during which years its membership oscillated about the 2,000,000 mark, sometimes slightly above it and sometimes slightly below it, but with no definite trend in either direction.

3. A steady upward movement took place during the years immediately preceding the World War until halted by the incipient depression

of 1914, which showed itself in the figures for 1915. From 1909 to 1914, membership in American trade unions increased from about 2,000,000 to about 2,750,000.

4. During the period of inflation and war-time prosperity, American trade unionism made the greatest gains in its entire history before 1933. Its membership doubled from slightly over 2,500,000 in 1915 to over 5,000,000 in 1920.

5. A reaction took place from 1920 to 1923. The first postwar industrial depression resulted in the loss of 1,500,000 trade-union members; *i.e.*, over half the gains of the previous period of wartime prosperity were eliminated.

6. The period of postwar prosperity between the minor depression of 1921 and the major depression of 1929 to 1933 witnessed a stability of trade-union membership, which remained at about 3,500,000 from 1923 to 1929. But industrial prosperity and higher wages failed to bring about an increase in trade-union membership during these years for the first time in recent American history. Although many causal factors existed, perhaps the most likely explanation of this failure of economic prosperity to produce a healthy growth in trade-union membership was the great development of company unionism during the postwar decade. This will be treated in Chap. XVIII.

7. The depression from 1929 to 1932 resulted in a considerable decrease in trade-union membership; these losses were not apparent or significant until later years of the depression.

8. The passage in 1933 of the National Industrial Recovery Act, including the important clause legalizing collective bargaining, was followed by a large increase in the membership of both trade unions and company unions.

10. **Relative Strength of American Trade Unionism in Comparison with That of Other Countries.**—The table below gives trade-union membership in several countries before and after the World War. The rapid growth of trade unionism during the period of the World War is

MEMBERSHIP OF TRADE UNIONS IN SELECTED COUNTRIES<sup>1</sup>

	1914	1920	1922
Australia.....	523,271	684,450	702,938
Canada.....	134,348	267,247	206,150
France.....	1,026,000	1,580,967	1,768,461
Germany.....	2,166,820	9,192,892	12,530,288
Italy.....	962,000	3,100,000	
Holland.....	266,000	683,500	640,000
United Kingdom.....	4,143,000	8,328,000	5,579,739
United States.....	2,716,900	5,110,800	4,059,400

<sup>1</sup> WOLMAN, L., "Growth of American Trade Unionism," p. 65.

visible in all countries studied. From 1914 to 1920, trade-union membership doubled in Great Britain, Canada, and the United States; it quadrupled in Italy and Germany. The movement was slower in France

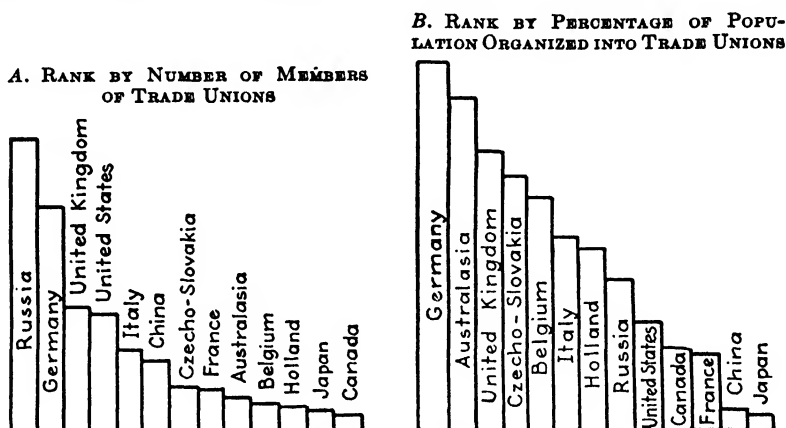


CHART 45.—Strength of trade unionism in various countries on eve of recent depression.  
See table below.

and Australia, but the latter country had been highly unionized even before the war.

From 1920 to 1922, a reaction took place in most countries. Great Britain, Canada, and the United States suffered a loss of about one-fifth of their trade-union members in these two years. But some countries,

NUMBER OF ORGANIZED WORKERS AND POPULATION OF VARIOUS NATIONS OF WORLD AT BEGINNING OF RECENT WORLD DEPRESSION (DEC. 31, 1928)

Country	Trade-union membership	Population	Per cent organized	Rank	
				Number	Percentage
Russia.....	11,060,000	164,000,000	6.7	1	8
Germany.....	8,694,887	62,348,782	13.9	2	1
United Kingdom..	4,673,144	44,790,485	10.4	3	3
United States.....	4,443,523	122,775,046	3.6	4	9
Italy.....	3,000,000	42,118,835	7.1	5	6
China.....	2,800,000	444,478,386	0.6	6	12
Czechoslovakia....	1,738,265	17,726,158	9.8	7	4
France.....	1,200,600	41,834,923	2.9	8	11
Australasia.....	1,018,457	8,000,665	12.7	9	2
Belgium.....	724,408	8,129,824	8.9	10	5
Holland.....	561,037	8,031,679	7.0	11	7
Japan.....	308,900	64,447,724	0.5	12	13
Canada.....	300,602	10,376,786	2.9	13	10

Figures for trade-union membership are those given in *Monthly Labor Review*, pp. 125 and 126, August, 1930. Figures for population are taken from *World Almanac*.

such as Australia and France, which had not shown so rapid an increase between 1914 and 1920, showed a continued steady increase in trade-union members from 1920 to 1922, rather than a decrease. In Germany, the rapid increase in trade unionism from 1914 to 1920 was continued from 1920 to 1922. However, it must be remembered that these were years of inflation in Germany, but years of deflation in Great Britain.

The table on page 379 gives 1928 figures for trade-union membership and general population of certain leading nations, as well as the ratio between them. In absolute number of trade-union members, the United States ranked fourth, being exceeded only by Russia, Germany, and the United Kingdom. When refined in terms of size of population, however, the United States ranked ninth in percentage of population belonging to trade unions. Germany and Australasia had almost four times, the United Kingdom and Czechoslovakia almost three times, Belgium, Italy, Holland, and Russia about twice as great a portion of their population organized into trade unions. Canada and France ranked about even with the United States. They were followed only by the oriental nations of China and Japan. Hence it would seem organized labor in Canada and the United States did not play so significant a role as in other Anglo-Saxon countries or in most European nations.

**11. Relative Strength of American Trade Unionism in Various Occupations.**—Changes in the type of membership in trade unions are as interesting as fluctuations in numerical totals. Various periods have been characterized by important qualitative, as well as quantitative, changes in the trade-unionism movement in this country. Hence it is necessary to analyze the occupational elements in American trade unionism, as well as to review its history. A comparison of the relative strength of trade unionism in various American industries is as interesting as that of its relative strength in various countries of the world.

The following table shows the growth of trade unionism by occupations during one of its most flourishing periods. In the decade between

PERCENTAGE OF EACH INDUSTRY ORGANIZED<sup>1</sup>

Industries	1920	1910
Extraction of minerals.....	41.0	27.3
Manufacturing industries.....	23.2	11.6
Transportation.....	37.3	17.1
Building trades.....	25.5	16.4
Trade.....	1.1	1.0
Professional service.....	5.4	4.6
Clerical occupations.....	8.3	1.8
Domestic and personal service.....	3.8	2.0
Public service.....	7.3	2.5

<sup>1</sup> WOLMAN, L., "The Growth of American Trade Unionism," p. 86.

1910 and 1920, membership percentages doubled in manufacturing and transportation and almost doubled in mining and the building trades, already highly unionized. Among the unorganized occupations, negligible changes took place in trade, the professions, and domestic and personal service; but a temporary tendency toward organization was shown in clerical occupations, whose percentage of members in labor organizations increased fivefold, and in public service, whose percentage almost tripled from 1910 to 1920.

A review of the foregoing table will show that the American trade-unionism movement was limited almost entirely to the artisan group. Clerical occupations, the professions, public employment, and domestic service have been, and still are, almost entirely unorganized. Agriculture, likewise, has been completely outside the main stream of the organized labor movement in this country. This situation, however, is not peculiar to the United States.

Even within industry itself, organized labor has attracted only a minority of all wage earners. Perhaps the very nature of trade unionism restricts its appeal to skilled craftsmen. In any event, almost all unskilled workers, and even most semiskilled workers, have been outside the ranks of organized labor in this country.

Membership in American trade unions seems to have concentrated still further during the past two decades. The table on page 382 shows that transportation and building have been, and still are, the two occupations most highly organized. Perhaps this is due in part to the fact that both these industries have been somewhat sheltered from the combined blasts of competition and mechanization. Thus transportation of most types has been a natural monopoly of organization under governmental regulation. The building trades are still primarily handicrafts, requiring skill. Again, they are peculiarly local in character. On the other hand, mining occupations, especially in the bituminous industry, have been subjected to a devastating national, and even international, competition which has wrought havoc with those unions. Attempts to maintain the closed shop in the organized soft-coal fields against opposition from other coal fields, unorganized or non-union in character, failed dismally in the postwar decade. Unions were shattered, funds exhausted, and membership dissipated in a series of unsuccessful strikes. On the other hand, clothing workers maintained with some degree of success their gains in numbers and strength, achieved from 1910 to 1920.

The table on page 382 analyzes trade-union membership by industries from 1910 to 1930. In contrast to the former table, the percentages given there represent the percentages by industries of all organized workers, rather than the percentages of all workers in a given industry who are organized.

TRADE-UNION MEMBERSHIP DISTRIBUTED BY PERCENTAGES ACCORDING TO FIFTEEN INDUSTRIAL GROUPS FROM 1910 TO 1930<sup>1</sup>

Group	1910	1920	1925	1930
All groups.....	100	100	100	100
Transportation.....	22.0	24.6	25.0	25.9
Building.....	21.0	17.4	23.5	26.5
Metal, machinery, and shipbuilding.....	9.0	16.8	5.6	5.9
Food, liquor, and tobacco.....	5.3	2.3	2.0	1.7
Paper, printing, and book binding.....	4.1	3.2	4.4	4.8
Chemical, clay, glass, and stone.....	2.8	1.0	1.2	1.0
Mining and quarrying.....	12.6	8.2	11.5	4.6
Leather.....	2.1	2.2	1.5	1.3
Clothing.....	4.4	7.1	7.8	7.3
Public service.....	2.7	3.2	5.4	7.8
Textile.....	0.9	2.9	1.0	1.0
Theaters.....	2.8	1.9	4.6	5.1
Restaurants and trade.....	2.7	2.8	1.7	1.8
Lumber and woodworking.....	1.3	0.5	0.3	0.4
Miscellaneous.....	6.3	5.9	4.5	4.9

<sup>1</sup> "Recent Social Trends," vol 2., p. 834.

**12. Relative Strength of American Trade Unionism for Industry as a Whole.**—It is hazardous to estimate the strength of trade unionism, because the best basis of comparison is a debatable matter. The ratio of trade-union members to all gainfully employed workers is a better test of strength than their ratio to the total population. But there remains the possibility of further refining the base from all gainfully employed to wage earners, and perhaps merely to wage earners in industry.

The National Bureau of Economic Research made a comparative study of the strength of American trade unionism in 1910 and 1920. It found that about one-tenth of the total number of wage earners were members of trade unions in 1910, but about one-fifth were members in 1920. In this decade, the strength of trade unionism doubled in the United States.

By changing the basis of comparison from total wage earners to total wage earners exclusive of those engaged in agriculture, the percentage of workers in trade unions was raised by 1 or 2 per cent. If salaried workers, public employees, domestic and unskilled workers also had been excluded, the strength of organized labor would have been increased still further.

Gains in membership achieved by organized labor between 1910 and 1920 were not maintained in the following decade. The decline in union membership following the minor depression of 1921 and during the major depression of 1929 to 1932, as well as the failure to progress vigorously during the intervening period of prosperity, has been discussed.



Before the passage of the National Industrial Recovery Act, in 1933, the strength of organized labor, as measured by the percentage of all workers organized into trade unions, was little, if any, greater than its prewar strength. However, the legalization of labor organizations and the right of collective bargaining may witness a future development to the 1920 level or far beyond it, perhaps even to a degree of power equal to that enjoyed in numerous European countries.

The strength of organized labor as a whole is even more difficult to appraise than that of trade unionism. Is trade unionism in general (not merely the American Federation of Labor) synonymous with organized labor or should hostile industrial unions, such as the Industrial Workers of the World, and subservient or apathetic company unions be included in an estimate of the numerical strength of organized labor? An increase in the numerator of the fraction, as well as a decrease in its denominator, will raise the ratio. Although membership in the Industrial Workers of the World is numerically insignificant, membership in company unions has grown rapidly within recent years, until now it represents a combined total which rivals that of the American Federation of Labor. Nevertheless, labor leaders do not regard company unions as part of the organized labor movement. They regard this movement as one which dissipates its strength, rather than contributes to it.

**13. Development of the Industrial Workers of the World.**—The Industrial Workers of the World, as contrasted with the American Federation of Labor, is an industrial, rather than a trade, union. Moreover, its aims and practices, as well as its organization, afford a striking contrast to the more conservative American Federation of Labor. The Industrial Workers of the World represent revolutionary, rather than evolutionary, unionism. Bitterly opposed to the utilitarian aims and conservative methods of trade unionism, the promoters of this labor

Other Occupations 8.6%
Food, Liquor and Tobacco 1.7%
Restaurants and Trade 1.8%
Mining and Quarrying 4.6%
Paper, printing and book binding 4.8%
Theaters 5.1%
Metal, Machinery and Ship Building 5.9%
Clothing 7.3%
Public Service 7.8%
Transportation 25.9%
Building 26.5%

CHART 46.—Distribution of trade-union members according to occupations in 1930. (Based on "Recent Social Trends," vol. 2, p. 834.)

See table on page 382.

organization sought a union of workers by industries, rather than by crafts, and cherished the hope of final amalgamation into one big union. Whereas the American Federation of Labor accepts capitalism and the wage system, the Industrial Workers of the World seek the destruction of the present economic and political order.

The organization now known as the Industrial Workers of the World emerged in 1905 at Chicago as a merger of such radical groups as the Socialist Labor Party, the American Labor Union, and the Western Federation of Miners.<sup>1</sup> In 1908, differences developed as to the course of action, and the Industrial Workers of the World split into two groups which were known as the Chicago and the Detroit branches. In 1915, the latter became known as the Workers' International Industrial Union. This group has socialism as its objective and favors political, as well as industrial, action. It may be classified as a type of socialism.

**14. Aims and Policies of Industrial Workers of the World.**—The Industrial Workers of the World, *i.e.*, the Chicago branch after the secession of the Detroit branch, is syndicalistic rather than socialistic. *Syndicat* is the French word meaning "union." Syndics are really councils of communists. The Industrial Workers of the World in America, syndicalism in France, revolutionary industrial unionism in Great Britain as illustrated by the Independent Labour Party, and bolshevism in Russia are different national aspects of a general world movement. Private-property rights and the state, as we understand them, are condemned. The ideal is that of an industrial commonwealth of free associations of workers, like the Russian Union of Soviets.

The Industrial Workers of the World repudiate political action, on the one hand, and collective bargaining, on the other. They seek direct industrial action by means of the general strike of all workers. The doctrine of class struggle is taught and the solidarity of all workers or the proletariat is sought for the overthrow of the capitalists or bourgeoisie.

Direct industrial action includes not only the general strike, but also sabotage. The origin of this term is found in the French word *sabot*, meaning the rough wooden shoe worn by workers. The American expression of "dropping a wrench in the works" is its equivalent. If the demands of the workers are not met, they may secretly destroy the machinery or the goods of the employer. It is almost impossible to discover the malefactor and great financial loss may result. On the other hand, the employees do not suffer the loss of employment and wages which a strike generally necessitates. Sabotage may be merely the peaceful "soldiering on the job," which is expressed by the Scotch words "ca' cannie."

**15. Strength of Industrial Workers of the World.**—Because of its radical aims and violent methods, the Industrial Workers of the World was a much feared and hated organization, particularly during the period

<sup>1</sup> This organization later withdrew and joined the American Federation of Labor.

of the World War, when an increase in production and a decrease in labor disturbances were earnestly sought by the government, employers, and conservative labor leaders. Although its program has been a source of considerable concern, membership in the Industrial Workers of the World has been relatively small and unstable. In 1910, the first year for which information is available, the secretary-treasurer of the organization announced 5,863 paid-up members. By 1917, this had increased to 60,000, and an aggregate of 300,000 membership cards had been issued since the beginning of the organization in 1905.

During the war, a vigorous policy of suppression was carried on by the government. Whether the result was an increase or a decrease in the membership of the Industrial Workers of the World is difficult to determine. A policy of secrecy was adopted and a resort to underground methods of activity was made by this and many other radical organizations.

At the Sixteenth Annual Convention of the Industrial Workers of the World in 1924, its paid-up membership was reported as 37,600. In 1929, the U. S. Bureau of Labor Statistics estimated its strength at about 30,000. During the depression of 1929 to 1933, the Industrial Workers of the World almost disappeared. A convention was held in 1931, but only seven official delegates were present.

It is far more difficult to get authoritative figures for the membership of the Industrial Workers of the World than for the American Federation of Labor. The former organization represents a variable and unsteady group of workers. It is largely composed of floaters and casual workers. Even within the group itself, there is little solidarity or unity of thought and action.

It seems hardly likely that the Industrial Workers of the World will assume the leadership of the American labor movement, even though their numbers should increase. In spite of certain apparent tendencies, the labor movement in this country still seems craft rather than class conscious, practical rather than utopian, and individualistic rather than socialistic.

**16. Bird's-eye View of History of American Labor Movement.**—In reviewing the entire history of the American labor movement from the Civil War to the present time, three peaks are discernible. One was the earlier and smaller peak of 1886, when the combined membership in both the Knights of Labor and the American Federation of Labor almost reached the million mark, which was very great for that time. Of these 841,000 organized workers, however, 703,000 belonged to the Knights of Labor and only 138,000 belonged to the American Federation of Labor. Hence 1886 represented the acme of labor unionism, after which date membership in the Knights of Labor decreased rapidly. The second peak, that of 1920, represented the pinnacle of trade unionism.

In that year, membership in the American Federation of Labor was over 4,000,000, and that in all trade unions over 5,000,000. Trade unionism then stood almost without a rival, for labor unionism had passed into history, industrial unionism was small, and company unionism was in its infancy. A third peak in the history of organized labor can be dated from the passage of the National Recovery Act of 1933, at which time company unionism and trade unionism were strong rivals for supremacy.

What of the future? Will the trade-unionist movement in this country decline in relative importance as did the labor-union movement a generation ago, or will it recover its former vigor and rise to a position of still greater importance, such as that of trade unionism in Great Britain, Australia, and some other foreign countries? At present, trade unionism in the United States seems to be declining in relative importance as compared with company unionism. This may be merely a temporary eclipse, or it may be a permanent development. On the other hand, company unions have the possibility of conversion into industrial unions by slow evolution or by rapid revolution, either violent or peaceful. In other words, there is the possibility, remote though it now seems, that industrial unionism may at some future time displace trade unionism and company unionism, present rivals for the center stage of contemporary labor organizations.

**17. Quasi-public Industrial Unionism and Independent Trade Unionism.**—The older independent trade-unionism movement began in England during the industrial revolution. It was transplanted to this country a century ago, where different economic and political conditions modified its subsequent development. The new quasi-public industrial unionism originated in Europe during the period of the World War, when labor organizations in many countries secured additional legal recognitions.

The postwar development abroad toward improved economic planning and increased public control accelerated labor organization but modified its character. Quasi-public unionism developed in various countries of continental Europe, particularly in Fascist Italy and Germany, and Soviet Russia. Even Great Britain, the home of independent trade unionism, moved more conservatively in the same direction.

On the other hand, the United States was going through a series of technological changes, known as the "new industrial revolution." Increased industrial productivity and unprecedented economic prosperity continued until the great crash in 1929. Meanwhile, our labor movement differed from that in Europe and from that of our own previous history. Quasi-public unionism of the European variety failed to appear, and increased vitality of conservative American trade unionism failed to reappear. Instead, the period was characterized by a phe-

nominal growth of company unions, employee ownership of stock, and various welfare projects. In other words, the American labor movement was temporarily obscured by, or under the direction of, the employer. When the history of the labor movement during this period is written at some future date, management can point to the prosperity before 1929, and labor to the depression after 1929. The socialist, however, will record the failure of rugged individualism of both enterpriser and wage earner, and the inadequacy of both company unionism and trade unionism.

Increased governmental control of business and the attempt to organize industries into great trade associations, important parts of the recovery program of 1933, if successful and permanent, must sooner or later produce equally significant parallel changes in the American labor movement. It has been suggested that the labor organization of the future, like industry itself, will be quasi-public in character. Large industrial unions, composed of all workers therein, may develop both improved legal status and increased political responsibilities. In other words, the American labor movement of the future may become politically conscious, rather than independent; and it may assume industrial forms, rather than continuing to adhere strictly to craft lines. In any event, independent trade unionism cannot maintain its "splendid isolation" even in a semiplanned and partially controlled economy. Old weapons of collective bargaining may become as obsolete as the bow and arrow in future industrial conflicts, or as reprehensible as poison gas in the industrial peace of an interdependent society and a planned economy of tomorrow.

The free trade union under these conditions has but little chance for survival. Being voluntary in character, it can muster the consent only of minority groups of workers in the skilled and semi-skilled trades. Being limited in resources, it cannot cope with the large investments needed now to organize in the new and highly mechanized industries. Based essentially on craft or trade, it cannot cope with the new technological conditions of industry. Being pragmatic and opportunistic, it cannot keep in step with scientific method which is becoming more and more the *sine qua non* of industrial policy. Having as its major weapon the right to strike, it is a possible factor of economic and social conflict which the community wants to limit. Founded on the principle of protecting the interests of special groups of workers first and foremost, it cannot easily rise to a national and social point of view. . . .

Were the old trade unionism to die without an heir, it would be necessary to find one for it, for there are certain functions in industry which cannot be properly performed except through the collective cooperation of the workers. First, such tasks as prevention of waste of materials, improving processes, bettering conditions of employment and maintaining morale cannot be properly carried out by being imposed from above under a system of public economic control. Second, promoting the larger economic and social welfare of the

workers—in relation to housing, education, recreation—calls for active cooperation by the workers, management and the government. And, third, the interpretation of the rules of work and the adjudication of disagreements can be achieved with a minimum of coercion only if the workers have a share in developing and using the facilities for a rational examination of facts and issues involved.<sup>1</sup>

The action taken by the American Federation of Labor at its annual convention in 1934 was very significant, and perhaps indicative of this new development. A resolution was passed permitting the formation and affiliation of industrial, rather than craft, unions in those industries which are highly mechanized and characterized by mass production. This change of policy was precipitated by difficulties encountered in the attempts of trade unionists to organize the workers in the automobile factories along the old lines of craft unionism.

**18. Trade Associations of Employers.**—The growth of different types of labor organizations has been paralleled by the development of various associations of employers. The practices and policies of the former have been opposed by those of the latter. The forms of employers' associations are as varied as those of labor organizations. Indeed, the one depends on the other, and both are influenced by the nature of the industry. Although the membership of labor organizations is greater than that of employers' associations, the financial reserves of the latter are much larger.

The development of employers' associations came later than that of labor organizations, but germs of such associations are as old as those of trade unions. In the days of the medieval guilds, there were associations of master craftsmen, although there was no such gulf between labor and capital as existed after the industrial revolution.

In 1789, there existed the "Society of Master Cordwainers of the City of Philadelphia." In other American cities, organizations of employers were formed to oppose the unlawful conspiracies of workers to secure higher wages and shorter hours of work.

It was not until after the industrialization of the United States, in the period following the Civil War, that association of employers, like organizations of workers, achieved national dimensions. In 1875, there was organized the first national association of manufacturers of a given industry, the United States Potters' Association. In 1886 appeared the Stove Founders' National Defense Association. In 1891, it began to make formal agreements with the Iron Molders' Union of North America. Other national associations of employers were formed in the closing years of the nineteenth century and in the opening years of the twentieth century.

<sup>1</sup> LORWIN, LEWIS L., "The Challenge to Organized Labor," *Current History*, pp. 673, 674, September, 1933.

With the close of the World War a renewed impetus was given to the organization of employers. In the years of depression and unemployment which followed, an effort was made to win back some of the gains which organized labor had achieved during the war. A survey by the National Industrial Conference Board in 1921 claimed the existence of several thousand employers' associations with a total membership which ran into the millions.

The National Industrial Recovery Act of 1933 required the formation, or permitted the imposition, of industrial codes. It assumed the existence or formation of trade associations or guilds of employers within a particular industry. Such an association of employers, illustrated by the cotton-textile manufacturers, the bituminous-coal operators, or the steel institute, were to work out a code of fair trade practices for their own industry. Contrary to the provisions of the Sherman Act, such an association of employers might operate as a combination in restraint of trade by limiting production and regulating prices. From a labor-management point of view, wage rates, hours of labor, and working conditions played an important part in these industrial codes. If this great industrial experiment should prove sufficiently successful to warrant its continuation after the emergency recovery period, associations of employers will play a far more important role in the planned economy of the future than in the individualistic society of the past.

**19. Other Associations of Employers.**—The sympathetic strike of laborers produced still wider and closer associations of employers. In 1895, the National Association of Manufacturers was organized. It is significant as the first national organization of employers open to all manufacturing industries. Although its chief objects now are to secure protective tariff legislation and to develop foreign exports, labor problems and policies also were a part of the original program of this association. In 1903, there was formed the Citizens' Industrial Association of America specifically for the latter objectives. National and local units were organized to oppose the demands of organized labor.

In 1902, there was organized the American Antiboycott Association, which was later termed the League for Industrial Rights. In 1907, there was formed the National Council for Industrial Defense. The latter organization had the avowed purpose of opposing such labor legislation in Congress as it deemed undesirable. State associations of manufacturers also have been organized in all important industrial states to keep a watchful eye on the course of labor legislation within their respective borders.

The National Industrial Conference Board was created in 1916 for the collection of information, rather than the formulation of policies. It seeks to get the facts about current industrial and financial problems, which it then analyzes for employers and the general public. The

National Industrial Conference Board is more scientific and less propagandist than most other associations of employers. It has made numerous important studies of labor problems.

Chambers of commerce also should be mentioned in this connection, for the varied work of these local, city, state, and national bodies includes labor policies and practices.

**20. Policies of Employers' Associations.**—There is nothing inherently wrong in the organization of either capital or labor, for it is merely a frank recognition of group differences along modern economic lines. Effective collective bargaining requires such organization by both parties. But if industrial conflict rather than the peaceful settlement of differences results, such militant methods of capital and labor are productive of much harm. The economic weapons used by both sides may be socially injurious.

Even before the industrial codes of 1933, some associations of employers recognized collective bargaining on the part of their workers. Indeed, a few were organized primarily for the purpose of making agreements with them as to wages, hours, and other industrial issues. Other associations of employers, sometimes known as the "militant" type, opposed any attempt at collective bargaining on the part of their employees.

Most associations of employers, however, are somewhere between these two extremes. They have been as opportunistic in their policies as labor organizations. They may recognize collective bargaining in principle, but they take every opportunity to oppose those practices of labor which make collective bargaining effective. Although opposed to the walking delegates of the union, they have employed their own salaried secretaries, organizers, and publicity men.

The open shop has been a leading issue of associations of employers who have resented any compromise on the right to hire and fire whom they please, and to run their own businesses without outside interference. Although tacitly retaining the right to use the lockout, the injunction, and the black list, associations of employers opposed the strike, the boycott, and the unfair list of labor. Much was spoken and written about the personal liberty of employers and the sanctity of contract.

Most associations of employers opposed both restriction of output and limitation of apprentices on the part of organized labor. But the employer should not be prevented from introducing machinery or any other labor-saving devices of manufacture. Again, he should be permitted to utilize whatever methods of industrial remuneration seem best. Moreover, encouragement should be given to vocational education, industrial training, and trade schools to insure an adequate supply of skilled labor. Unrestricted immigration was regarded as necessary to provide unskilled labor from Europe.



Abundant funds have been spent in the war against the closed shop. In cases of emergency, financial, moral, and legal support was given to the employer who faced a labor crisis. Spy systems were often used to detect sources of industrial unrest, as well as threatened property damage. Adequate employment lists of tractable workers were kept by central agencies, whence groups of laborers could be shipped hurriedly as strike breakers to the place of need.

**21. Summary.**—Labor organizations may be classified according to their type of organization, *e.g.*, labor unions, industrial unions, or trade unions; and according to their functions and methods, *e.g.*, conservative or revolutionary unions.

The significance of the Knights of Labor, a once-powerful labor union, is now merely historical. The Industrial Workers of the World constituted a small and unstable industrial union. Although not all trade unions belong to it, and although not all its member unions are craft unions, the American Federation of Labor typifies present trade unionism in this country.

The American Federation of Labor relies on the strike, the boycott, and other methods of collective bargaining, while the Industrial Workers of the World advocate the general strike and sabotage. The former accepts the present industrial system, but the latter seeks to overthrow modern capitalism.

Trade unionism in this country developed steadily before the World War and very rapidly during it. Just as 1886 represented the acme of labor unionism in the Knights of Labor, so 1920 represented the peak of trade unionism, for at that time the American Federation of Labor had 4,000,000 members and all trade unions had 5,000,000 members.

The depression of 1921 and that of 1929 to 1933 resulted in a serious loss of trade-union members. Moreover, the period of prosperity from 1922 to 1929 was not accompanied by a substantial increase of membership. The recovery measures of 1933 may result in important changes in the character of the American labor movement. Perhaps the independent trade unionism of the past may be revived, or it may give way to company unionism or to quasi-public industrial unionism.

The United States ranks fairly high in absolute number of trade-union members; but when these figures are refined in terms of population, this country ranks far behind most European nations. Most wage earners in this country are still unorganized. Illustrations are unskilled labor, clerical and professional groups, agricultural workers, and women and children.

The organization of workers has been paralleled by the development of employers' associations, both within industry and among industries. An illustration of the former is the Steel Institute and of the latter is the National Association of Manufacturers. Employers' associations have

avored the open shop and opposed many of the practices of organized labor, such as the closed shop, check-off system, limitation of apprentices, restriction of output, and negotiation through "a walking delegate."

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#### Questions for Discussion

1. Outline different kinds of labor organizations.
2. What are their essential differences and similarities?
3. Discuss the aims and organization of the Knights of Labor.
4. Outline the development of trade union membership in the United States.
5. Contrast the American Federation of Labor with the Industrial Workers of the World with regard to organization, weapons, and objectives.
6. What industries are highly organized and what are unorganized?
7. Can it truly be said that the American Federation of Labor represents the workers of the nation? Why or why not?
8. What seems the fairest way to appraise the strength of trade unionism?
9. Outline various types of associations of employees.
10. Indicate their chief aims and policies.

#### Topics for Investigation

1. The labor movement in America before the Civil War.
2. Trade unions outside the American Federation of Labor.
3. The organization and constitution of some trade union with which you are familiar.
4. Its relationship with other such organizations.
5. The Industrial Workers of the World and the World War.
6. Effect of the depression on membership in trade unions.
7. Effect of the legalization of collective bargaining by the National Industrial Recovery Act of 1933.

## CHAPTER XIV

### AIMS AND POLICIES OF TRADE UNIONISM

#### THE ECONOMIC BASIS OF COLLECTIVE BARGAINING

**1. Necessity of Collective Bargaining.**—Collective bargaining on the part of organized labor is the result of the disadvantages of the isolated worker in individual bargaining. The economic aspect of a competitive wage is affected by the fact that the two parties to the contract are of such vastly different bargaining power.

Among the chief disadvantages of the individual worker in making a wage bargain are the following: Labor is a service and, therefore, similar in nature to a perishable commodity. Time spent in finding employment represents a loss of working hours and, hence, of wages. The proffered wage may be lower than the competitive rate of wages for a given type of work, but its refusal may mean unemployment. Loss of wages to the worker is frequently more serious than loss of profits to his employer. The laborer has no great surplus of past savings on which he can draw in a protracted period of unemployment.

Another disadvantage of the unorganized worker is his inferior knowledge of general conditions of employment, as compared with that of the employer or with that of the salaried secretary of a labor organization. Additional disadvantages of the worker are his immobility and ignorance. He does not know where to go in order to better his condition. Moreover, it is not easy for the worker and his family to move quickly from place to place under the lure of a slight wage differential.

A final disadvantage of the worker is the frequent existence of understandings among large employers of labor as to wages and other conditions of employment. A gentlemen's agreement may prevent them from competing actively for workers and thus forcing wages up to their natural or competitive level. Associations of employers have been reluctant to "spoil the labor market." There has been some very successful collective bargaining among employers.

**2. Primary Objectives of Collective Bargaining.**—Collective bargaining is the answer of organized workers to their individual helplessness under the wage system.

The chief object of labor organizations is the raising of wages or the maintenance of customary standards of living against a rising price level. Closely associated with this objective of higher wages is the desire of the workers for a shorter working day and increased leisure. Indeed, these

two primary objectives of collective bargaining have often been merged into a single ideal. The following slogan of the American Federation of Labor was typical:

Whether you work by the piece or work by the day  
Decreasing the hours increases the pay.

The securing of these two primary objectives of collective bargaining is conditioned by the strength of organized labor. Hence another primary aim of trade unionism is the maintenance of the right and power of collective bargaining. Trade unions constantly seek to strengthen their own forces and weapons. They are bitterly opposed to any practices or restrictions which may sap the effectiveness of collective bargaining.

**3. Secondary Functions of Labor Organizations.**—Trade unions are often mutual benefit associations which provide out of their accumulated dues for their disabled, bereaved, or unemployed members and families. Labor organizations sometimes maintain insurance programs of their own for the numerous hazards which their members face. Often they are affiliated with fraternal benefit associations. Labor organizations also frequently serve as employment bureaus for their members. They seek to find jobs for those out of work and frequently maintain valuable records of the amount and causes of unemployment.

Some labor organizations perform important educational work. Periodicals are published, and numerous meetings are devoted to educational, as well as business, programs. Thus the garment workers maintain evening classes and even college courses for their members. Their annual almanac possesses artistic, literary, and educational merits, as well as a utilitarian purpose. Some discussions in economics held by the Labor College for its members would put to shame some undergraduate recitations in our leading universities.

The social and recreational functions of many labor organizations are important. A trade union or a local federation of labor may become a social center for workers and their families. If the organization is large and prosperous, headquarters may be maintained in a fairly imposing building. Offices, lecture halls, meeting rooms, reading rooms, recreational rooms, and numerous pleasant club features may be developed. These recreational features, however, are often provided by an affiliated fraternal organization.

Labor organizations have recently become interested in other objectives than those described in the preceding paragraph. The primary or "bread-and-butter" functions of labor organizations have been supplemented by a host of secondary objectives. Thus some workers are demanding not only a greater participation in the product of industry, but also in its control.

The educational program of labor is resulting in some keen analyses of our present industrial system. Although conservative labor organizations are pleading merely for the copartnership concept of labor in industry, revolutionary unionism proposes the elimination of the enterpriser, the wage system, and capitalism.

**4. Interpretations of Collective Bargaining.**—Collective bargaining was defined as group, rather than individual, competition and as agreements between organized associations, rather than among isolated individuals. It is difficult to be more specific without getting into different, but related, questions, such as what practices and weapons are essential to effective collective bargaining.

As collective bargaining represents negotiations between groups instead of between individuals, it is imperative that both sides be organized effectively. Otherwise, the situation constitutes merely fictitious or one-sided collective bargaining. Fair collective bargaining may be illustrated by joint conferences and trade agreements between parties of nearly equal bargaining power. Their aim is the reduction of industrial differences to peaceful discussion with the ultimate formation of a compromise which becomes the accepted usage of an industry or occupation.

It is easy to agree on the desirability of collective bargaining and, indeed, on its actual necessity. But to interpret collective bargaining in terms of various practices is very difficult. Thus the labor delegation withdrew from President Wilson's postwar conference between capital and labor, because of its failure to come out from behind platitudes in the matter of collective bargaining. The workers insisted that collective bargaining be defined more specifically as inclusive of certain practices, such as the closed shop, which labor regarded as essential to it. Although all members of the conference were willing to endorse the general principle of collective bargaining, representatives of the employers were not willing to accept these concrete and partisan interpretations of collective bargaining made by organized labor.

The same problem of interpreting the general principle of collective bargaining in terms of specific practices and existing organizations reappeared in the recovery program of President Franklin D. Roosevelt. General Johnson and the administration affirmed the government's position in favor of the principle of collective bargaining but refused to accept the closed shop as its proper and universal expression. Indeed, the general inference was in favor of the non-discriminatory open shop. On the other hand, General Johnson refused to permit the steel industry to write company unionism into its industrial code as its interpretation of the general principle of collective bargaining.

Organized labor has consistently and insistently attempted to inject such concepts as the closed shop and the walking delegate into its interpretation of collective bargaining. It has been equally adamant in its

refusal to regard employee representation or company unionism as true or fair collective bargaining. It is our present problem to analyze weapons of collective bargaining and to discover, if possible, which are essential to effective collective bargaining, rather than to insist on any one definition of that general term.

**5. Weapons of Collective Bargaining.**—The various weapons of collective bargaining may be classified as those of employers and those of employees, as those of consumers and those of producers, as peaceful and militant practices, as radical and conservative weapons, as legal and illegal practices, as open and secret weapons, as economic and wasteful weapons, and, finally, as socially desirable and socially undesirable practices of collective bargaining.

Strikes are generally militant and uneconomic weapons of collective bargaining, which are used by employees organized as producers. They may or may not be legal. The union label is an open, peaceful, economic, socially desirable weapon of employees organized as consumers. The black list is a secret, legal weapon of employers. Sabotage is a secret, radical, uneconomic, and socially undesirable weapon of some labor organizations. Each of these, and other, weapons of collective bargaining will be treated in turn.

**6. Open and Closed Shop.**—The open shop is one in which both union and non-union men may be employed. The closed shop is one in which only union men may be employed. It must be remembered, however, that there are shops which are closed to union men, *i.e.*, in which the employer will openly or secretly employ only non-union men. Thus certain employers have professed to maintain the open shop, but a close inspection reveals that union men are not employed at all or are discriminated against in dismissals, promotions, and other matters. The open shop which is free from any discrimination against union men is very rare. This is one of the strongest arguments against it, *viz.*, that the so-called open shop is frequently a closed shop, *i.e.*, closed to union members, sympathizers, and organizers.

The closed shop may be operated by either the open or closed union. In the closed shop with the open union, the employer may hire whom he pleases; but if he employs a non-union man, the latter must join the union before he begins work. In the closed shop with the closed union, the employer may employ only men who are members of unions. Management's power to discharge a workman, as well as its power to hire him, is limited. The causes of the discharge must be passed on by union officials, or other organized workers will walk out. Again, efficient workers who lose their standing in the union must be discharged.

In some cases, management actually performs some of the administrative work of the union. This is known as the "check-off system." Employers maintain records and deduct union dues and fines from

the wages of their workers. These funds are subsequently turned over to union officials. The check-off system is common in the organized bituminous-coal fields, where it works with remarkably little friction in administrative detail.

The closed shop with the closed union is a labor monopoly which is difficult to defend. It is an autocracy of labor which discriminates against capable workers who are not members of unions, entrance into which is oftentimes difficult.

The anti-union shop also is discriminatory, in that it forces workers to give up their right of union membership. Nevertheless in some anti-union shops, employers are not only solicitous about the well-being of their employees, but also willing to treat with them. On the other hand, many non-union shops are openly or secretly hostile to the very principle of collective bargaining. In some cases, a resort to the spy system is made by employers in order to eliminate any labor organizers or sympathizers.

**7. Arguments for and against the Open Shop.**—Since the period of the World War, associations of manufacturers and other employers' organizations have begun a national campaign in behalf of the open shop. Organized labor has been equally insistent on the closed shop. The literature of both sides has been propagandist, rather than unbiased, and emotional, rather than scientific. Any economic problem, however, has its two sides, and every program has its advantages as well as its disadvantages.

Advocates of the open shop indict the closed shop with being un-American, monopolistic, and unfair to both the employer and unorganized labor. It is sometimes charged that the public welfare is endangered by the closed shop which is classified with various forms of radicalism and often indicted as the cause of many existing economic ills.

The chief contention of employers is that the closed shop prevents them from running their own business without outside interference. Moreover, all workers are reduced to the dead level of mediocrity under the union control of output, wages, and working conditions. Again, unorganized workers are deprived of their "constitutional right of freedom of contract" to sell their labor as they see fit. Finally, the general public suffers in the form of high prices.

Organized labor replies that the open shop exists in name only and that most open shops are in reality anti-union shops. The movement in favor of the open shop is merely a disguised attack upon organized labor. It is held also that effective collective bargaining is dependent on the closed shop, and that without collective bargaining the exploitation of the worker would result.

The closed shop with the open union is regarded by its advocates as democratic and not monopolistic. Moreover, it seems strange to them



that great monopolies of capital should dare to raise the charge of monopoly against the closed shop. If modern business finds necessary the standardization of its products and the one-price system for its wares, why should not organized labor do the same for its services?

Many advocates of the closed shop justify coercion on unorganized laborers to join unions. The non-union man who works beside a union man receives the benefits of collective bargaining in wages, hours, and working conditions. Why should he not be compelled to join the union and assume some of its burdens when he shares its benefits?

In the last place, no employer has an absolute right to run his business without interference. The employee, as well as the employer, and the laborer, as well as the capitalist, must share in the determination of conditions of industry. Industrial absolutism must give way to industrial democracy.

**8. Walking Delegates.**—The right of collective bargaining is interpreted by labor to include not only the closed shop, but also the "walking delegate." These two issues are closely intertwined.

There are many employers who avow their sincere readiness to meet with any representatives chosen from among their own employees, but who refuse to have any dealings with individuals outside their own plants. They repudiate the professional labor leader who goes from place to place for the purpose of organizing unions and conducting strikes.

Labor leaders point out in reply that strike duty is merely one of the functions of labor leaders who sometimes settle rather than cause industrial conflicts. Workers are not sufficiently trained or informed to do this work for themselves. If employers and associations of employers can employ counsel and trained specialists, why should not employees exercise the same privilege?

It is also held that no employee would dare to organize his fellow employees for a strike or for advancing their claims against those of management. To do so would merely cultivate an immediate or a deferred dismissal. It is easy for an employer to find an excuse for dismissing an employee who has rendered himself obnoxious by his activities in collective bargaining. Moreover, tacit agreements among employers may render it difficult for the discharged worker to obtain employment elsewhere. Again, the hope of advancement is often a sufficient temptation to induce the plant representative of the employees to sell out their interests to the employer.

**9. Company Unions.**—Company unions are organizations of the workers of one plant or business corporation, whose employees elect representatives to treat with their employer as to wages, hours, and general working conditions. Company unions are not a part of the organized labor movement, and a description of their plans of organization will

be given in Chap. XVIII, which deals with the general problem of employee representation.

Company unions are generally superimposed from above rather than being a natural growth from below, as in the case of trade unionism. Company unions have generally been organized on the initiative of the employer, the management, or the personnel department of a large organization. They are frequently accompanied by profit-sharing schemes, welfare projects, and pension systems. The general aims of company unions are the development of a closer cooperation between men and management and the production of industrial good will as a valuable business asset.

Company unions have developed apart from and often in conflict with trade unions. In most cases, members of company unions are not members of trade unions. In some cases, they were actually prevented from becoming members of trade unions while in the employment of the firm which maintained such a company union. Only in rare cases, such as in the plan of the Philadelphia Rapid Transit Company, was the door left open to a possible affiliation with organized labor if the great majority of employees so desired. In many cases, company unions are open-shop organizations, which means that they are frankly or secretly hostile to trade unions. Consequently, company unions have been indicted by labor leaders as mere paper unions or as sham organizations of labor which are under the control of the employer rather than under that of the workers.

**10. Essentials of Effective Collective Bargaining.**—Company unions cannot be regarded as collective bargaining in the original and narrow sense of that term. Although collective bargaining may be interpreted as inclusive of all group negotiations, such a broad definition means very little. The first essential of effective collective bargaining is the right to belong to a trade union, and to secure the support and cooperation of the general organized labor movement.

Effective collective bargaining involves also the employment of the walking delegate and the professional labor leader, rather than the utilization of an employee of the plant. Representatives of the employees in a company union may be bribed by the prospect of promotion to sell out the interests of their fellow workers, or they may be prevented by the possibility of discharge from pressing too far the demands of their fellow employees. Unlike *Oliver Twist*, the employee representative will not offend management by daring to ask for more for himself and his fellow industrial orphans.

Finally, the members and delegates of company unions are forced to fight their industrial battles without such weapons as the strike or the threat to strike. The employer may be fair, reasonable, and even sympathetic, but, if he is not, there is no possibility of coercing him by any of the

common and effective weapons of industrial warfare. For these reasons, as well as others of less importance, company unions cannot be regarded by the workers as an effective instrument of collective bargaining.

The legalization of collective bargaining under Sec. 7a of the National Industrial Recovery Act of 1933 made necessary a reanalysis of this general term. Employers insisted that company unions and employee representation, when and where voluntarily elected by workers, constituted collective bargaining within the meaning of the new law. On the other hand, leaders of organized labor claimed that trade unions were the only organizations which provided for effective collective bargaining.

**11. "Yellow-dog Contracts."**—Although the workman's power to strike was somewhat limited, as will be seen in the following chapter, the employer's right to discharge was almost absolute. Although it might be inexpedient to exercise this power of discharge in an autocratic fashion, the employer was generally within his legal right in discharging whom he pleased, as well as in hiring whom he pleased. In other words, management might refuse to hire a union worker and might discharge him merely because of his union membership.

In order to prevent an infiltration of union members, some employers formerly questioned each worker before employment and secured from him a written statement that he was not a union member. In order to guard against his subsequent affiliation with a trade union, management sometimes made a prior condition of employment the signing of an agreement by every prospective worker that he would not become a member of a trade union or of other specified labor organizations as long as he remained in that employment. Such agreements, frequently stigmatized as "yellow-dog" contracts, were bitterly opposed by trade unionists.

The Interborough Rapid Transit Company of New York, for illustration, maintained a company union known as the "Brotherhood of Interborough Rapid Transit Company Employees." Each new employee formerly was forced to join this union and to sign a contract to the effect that he would not belong to a trade union or any similar labor organization while in this employment. Although company unions sometimes competed fairly with trade unions for membership, they were often forced on employees by the imposition of yellow-dog contracts.

It is a principle of common law that legal action is possible against a third person who persuades one of the two parties to a contract to break this agreement without justification or legal excuse. It has also been held by the Supreme Court of the United States that it is illegal to unionize or to attempt to unionize workers under voluntary contracts giving up the right of union membership as a condition of employment.

It was further held by the Supreme Court<sup>1</sup> that an injunction might be issued forbidding attempts to organize workers who had signed "voluntary agreements" not to join labor organizations while in their present employments. Thus yellow-dog contracts were regarded as legal, and the right of injunction existed against outside attempts to unionize the signers of such agreements.

A number of states passed laws prohibiting employers from denying to their employees the right of membership in trade unions. Employers were sometimes forbidden by law to discharge those employees who belonged to labor organizations merely because of their union membership. However, most of these state laws were unconstitutional or unenforceable.

In 1932, the National Congress passed the Norris-LaGuardia Act, which forbade any Federal court from issuing an injunction sustaining yellow-dog contracts, or from punishing any violation of them by contempt-of-court procedure. This law will be discussed in the following chapter. Again, the famous Sec. 7a in the National Industrial Recovery Act of 1933 forbade coercion of employees by employers in the matter of belonging to or organizing labor organizations.

**12. Black Lists.**—The black list has been defined as a boycott of employers against the labor commodity of their employees. It is a memorandum of the names of employees who have made themselves obnoxious to their employers because of trade-union activities or other labor agitation. Associations of employers prepared for circulation among themselves a list of employees who took an active part in labor organizations and in industrial disputes. A tacit agreement among these employers prevented the reemployment of such workers, even by other employers in other industries and in other places.

Employers sometimes maintain their own employment bureaus and prepare white lists, as well as black lists, of employees. The white list enumerates those employees who are faithful and tractable, as well as efficient, workers. Such workers are given preference in employment. The hope of whitelisting, as well as the fear of blacklisting, is a very effective deterrent to most workers from participation in labor agitation and industrial disputes.

Although nearly all states have attempted to legislate against blacklisting, such laws have accomplished little. It would seem that this weapon of management is within the law. The old doctrine of conspiracy, so frequently used against labor organizations, has not been found to apply against blacklisting by employers.

Overzealous legislation against blacklisting has been declared unconstitutional. Thus a Federal statute forbidding an employer, engaged in

<sup>1</sup> *Hitchman Coal and Coke Company vs. Mitchell*, 245 U. S. 229, 38 Supreme Court 65, 1917.

interstate commerce, to discharge an employee because of membership in a union was declared unconstitutional. Moreover, a Federal court ruled that an employer had the right to keep a record of men discharged for union membership and that he might lawfully invite its inspection by other employers.<sup>1</sup> In the last place, it is apparent that any legal prohibition against blacklisting would be difficult to enforce because of the possibility of secret and informal understandings.

**13. Fair Lists and the Union Label.**—The use of the fair list and the union label represents an attempt to organize workers as consumers, just as the closed shop represents an attempt to organize them as producers. Their fundamental aims are similar. The fair list and union label are workers' weapons of collective bargaining similar to employers' white lists in their positive, rather than negative, character.

The fair list is an enumeration by organized labor of those firms who maintain the closed shop and working conditions approved by trade unions. Their patronage is therefore requested by workers.

Consumers' leagues maintain lists of firms which manufacture and sell their products under favorable working conditions, such as the absence of child labor, intolerable working conditions, and excessive hours of employment. The aims of such organizations are excellent, but they are not very effective because the average consumer will not consult a list of approved firms before making purchases. Some distinguishing mark placed conspicuously upon the salable commodity is far more effective.

The union label is a mark which is placed upon goods manufactured under union conditions. It generally means that the employer has conformed to union standards in the production of a given article. The union label implies a living wage, reasonable hours, and the absence of sweating, child labor, and convict labor. It has sometimes been regarded as peaceful collective bargaining, as contrasted with the militant methods of strikes and picketing.

The union label originated among the cigar makers of California in 1874 as a protest against the employment of cheap Chinese labor in this industry. The white label formerly attached to cigar boxes signified the use of white labor, but it gradually came to mean union labor. The cigar makers' union label was followed by one for hatters, one for garment workers, and, finally, by one for various other trade unions.

The American Federation of Labor has striven to give publicity to these labels and to educate its members in the consumption of union-made goods. It publishes regularly these various insignia in its periodicals. The actual and potential effectiveness of such a weapon among the millions of organized workers and their families is easy to understand.

<sup>1</sup> *Boyer vs. Western Union*, 124 Federal 246, 1903.

The use of the union label has spread from the United States to Canada, Great Britain, and Australasia. The courts have generally upheld its legality and pointed out its similarity to trade-marks. In spite of the cry of class legislation, a number of states have passed laws designed to give legal sanction to the use of union labels.

The Blue Eagle of the National Industrial Recovery program of 1933 was an attempt to whitelist firms which complied with the new regulations. It sought to induce consumers to purchase only from them. The Blue Eagle stamped on merchandise was an imitation of the union label of workers and the trade-mark of manufacturers.

**14. Restriction of Output.**—Because of the fatiguing nature of modern industry, organized labor not only has demanded a shorter day but also has made recourse to limitation of output. The latter has been defended as a counterweapon to the employer's attempt to speed up workers. Machinery may be geared to such a speed that the worker can be taxed continuously to his greatest exertion. Moreover, pace setting can be done by employing a few very skillful workers for the express purpose of setting a high standard of especially rapid production. Other workers on the same machine or on the same job are urged to similarly great production under the threat of discharge or a cut in wages. The most flagrant abuses of pace setting are found in the sweated industries.

Organized labor has replied to pace setting by deliberately limiting the number of units of product to be completed within a given amount of time. Thus the laying of a certain number of bricks, and no more, may be considered a fair day's work in bricklaying by union workers. Unorganized and unskilled workers also come to a tacit understanding among themselves about limitation of output. A new worker soon learns that he is regarded with suspicion by his fellow workers if he works so rapidly that he threatens to "kill the job."

Restriction of output has been regarded as a leveling-down process in comparison with the leveling-up process of pace setting. In the first case, the output of the poor worker is taken as the standard of labor, and, in the second case, that of the rapid worker.

Restriction of output by organized labor has two chief objectives. The first aim is the protection of the worker's health and strength against the dangerous and fatiguing character of modern industry. There is much to be said on this ground in favor of a reasonable limitation of output as a necessary weapon of defense of labor against speeding up beyond average human capacity.

The second aim of restriction of output is less justifiable, for it arises from the common fallacy of making work. It is thought that the rapid worker is lessening too quickly the total amount of labor, and that the limitation of output will spread employment over a longer period of time and, therefore, create additional employment. Both the introduction

of machinery and the practice of pace setting, which is often associated with it, are viewed by workers as decreasing the "lump of labor."

Restriction of output only apparently creates additional employment. Although at any given time and within any given occupation the amount of work is definitely limited, this attempt to create employment by a restriction of output is a selfish and short-sighted policy. Restriction of output tends to raise the price of the product, to increase costs of living, and to lower the real wages of all workers. At best, one group of workers may profit, but at the expense of those who do not practice limitation of output. If all workers practiced it, the national income would be decreased and real wages in general would suffer accordingly.

In conclusion, it may be said that both inhuman pace setting on the part of employers and arbitrary restriction of output on the part of employees are mistaken economic policies. Human capacities differ so greatly that any fixed pace or output, like any standard wage, may work individual injustices.

**15. Limitation of Apprentices.**—Monopolistic control over the supply and, hence, over the prices of commodities has long been practiced by capitalists. Monopolistic control over the supply of certain types of labor and, hence, a regulation of wages has been attempted also by the workers. Limitation of apprentices is an attempt to create an artificial scarcity in the supply of a given type of labor, just as a restriction of output may create an artificial scarcity of some commodity or service. It will be recalled that monopoly implies sufficient control over the supply of a commodity or service to regulate its price.

Both limitation of apprentices and restriction of output are as old as the guilds of the Middle Ages. In an age of craftsmanship, the period of apprenticeship was a time of trade instruction under the personal supervision of a master worker. The advent of the machine meant the replacement of the skilled craftsman by the semiskilled machine operator. The period of apprenticeship is now one of personal instruction only in those occupations which continue to be done by hand in the small shop. In most large industries today, the original concept of apprenticeship is a mere fiction. Employers or their foremen in modern factories have little time, ability, or inclination to teach new boys employed their trades. Where the machine has displaced the craftsman, the machine helper has replaced the former apprentice. The terms "apprentice" and "journeyman" in many occupations today have become mere units of classification between the older and better paid workers and the younger and less experienced ones. The journeyman is not necessarily a skilled worker, nor is the apprentice always learning a trade.

Limitation of apprentices is defended on two grounds: first, an improvement in the character of the work and, second, a raising of

wages. In spite of the prevalence of the machine, a number of occupations are still done by hand. Such work naturally requires both skill and training. Boys cannot effectively learn a trade if there are too many apprentices to every journeyman. Where organized labor is sufficiently strong to express itself on this point, a certain ratio of journeymen to apprentices is insisted on. Moreover, if a high quality of workmanship is the desired objective, a relatively long period of apprenticeship is necessary. Although organized labor has been more interested in the limitation of apprentices than in a longer period of apprenticeship, the highly skilled trades have adhered to this latter aim.

The result of both a limitation of apprentices and a lengthening of apprenticeship is the creation of a relative scarcity of a given type of labor and the raising of its wages. In many cases, the raising of wages, rather than an improvement in the character of the work, has been the chief objective. In order to be effective, however, the limitation of apprentices must be accompanied by the general acceptance within an industry of the closed shop, *i.e.*, one in which only union workers may be employed.

**16. Effectiveness of Collective Bargaining in Raising Wages.**—How far labor organizations can succeed in raising the real wages of labor in general is a controversial point of economics. Although collective bargaining for the purpose of raising wages is no longer regarded as conspiracy, it is not always so effective as is commonly supposed. Labor organizations are confronted with natural economic laws, as well as with man-made statutes.

Theories of wages were discussed in Chap. VI. It will be remembered that the marginal-productivity theory and the bargaining theory of wages were stressed. The wage paid for any type of labor may be regarded chiefly as the result of two forces: first, the scarcity of that type of labor relative to the demand for it, and, second, its comparative bargaining power. Collective bargaining may be regarded as a very effective device, by means of which labor has sought to overcome the numerous bargaining disadvantages of the single worker and to insure his payment in wages of the full marginal product of that type of labor.

A trade union of sufficient power can restrict the number of its members by a limitation of apprentices and thus create an artificial scarcity of that type of labor. By the use of such monopolistic power as the closed shop, which employs only union labor, and the closed union, in which the number of apprentices is rigorously restricted, powerful labor organizations can definitely limit the supply of a particular type of labor. Hence it is possible to raise the wages of that type of highly organized labor in a manner similar to that by which certain industrial monopolies succeed in raising the prices of their products by an artificial restriction of supply.



If the wages of a labor group are raised in such a manner, the frequent result is that the prices of those products into which that labor enters are, in turn, raised. Hence costs of living for other workers are increased. Money wages must be advanced proportionately as costs of living increase, if real wages are to be maintained. Therefore, it is contended that the whole movement is that of a vicious circle. As money wages go up, prices go up and real wages are not advanced.

It is true, however, that, if the money wages of any one labor group are advanced more rapidly than the increase in the general price level, their real wages are greater than before. But unorganized workers have not enjoyed an increase in money wages proportionate to their increase in costs of living. Hence they suffer a reduction in real wages. Thus it is contended that collective bargaining merely benefits the organized groups at the expense of the unorganized.

Although some economic theorists question the ability of trade unions to raise the general level of real wages above a natural or competitive rate, as fixed by the forces of supply and demand, it does not follow that collective bargaining is futile, even if it can do no more than secure for organized labor its full marginal product. Many labor leaders contend that collective bargaining on the part of the workers is necessitated by the bargaining disadvantages of the individual worker. Collective bargaining prevents employers from taking advantage of the ignorance or helplessness of their workers by paying them wages below their "natural" competitive wage rate, as fixed at any given time by the economic forces of supply and demand for a given type of labor.

Again, monopoly power and bargaining strength can increase the wages of certain groups of workers, at the expense of other workers and the consuming public. Many labor leaders, like ordinary business men, are interested in the economic welfare of their own groups, rather than in a broad humanitarianism.

In conclusion, let us turn to the argument from experience. It is true that the development of trade unionism since the industrial revolution has been accompanied by an increase not only of money wages, but also of real wages for labor in general and for organized labor in particular. This relationship may not necessarily be a causal one, however, for the greater wages of labor today are due to other things, such as modern technology and an increased control over the forces of nature. Nevertheless, without the development of labor organizations and collective bargaining, it is very likely that labor might not have received so large a share of this greatly increased national income. Today, the economic tug of war, represented by the process of distribution, is between competitors of more nearly equal bargaining power.

The situation has been ably summed up as follows:

The chief effects of the system of collective bargaining are: (1) it tends to level time wages; (2) to increase the average wage; (3) to establish a minimum wage; and (4) to transfer competitive pressure among workers from wages to efficiency and skill. The "standard rate" fixed by unions through the use of collective bargaining is a minimum rate or a "living wage."<sup>1</sup>

**17. Increase in Union Wage Rates as Compared with Increase in Costs of Living and Increase in General Wage Rates.**—Whether or not labor organizations have been successful in their allied objectives of increasing wages and reducing hours can be tested by a review of the gains of union workers over a period of time. The U. S. Bureau of Labor Statistics<sup>2</sup> prepared indices of union wage rates and hours of labor from 1907 to 1921. In spite of the fact that hours of labor per week fell from an index of 100 per cent in 1907 to one of 92 in 1921 (a decrease of 8 per cent), full-time wages per week rose from an index of 100 per cent in 1907 to one of 211 in 1921 (an increase of 111 per cent). Wage rates per hour rose from an index of 100 per cent in 1907 to one of 229 in 1921 (an increase of 129 per cent).

These statistics indicate that the money wages of union workers rose very rapidly during these fifteen years from 1907 to 1921, inclusive. But so did costs of living and the money wages of all workers. The U. S. Bureau of Labor Statistics reported an increase in costs of living from an index of 82.0 in 1907 to one of 177.3 in 1921, using the level for 1913 as base, or 100 per cent.<sup>3</sup> Again, the U. S. Bureau of Labor Statistics<sup>4</sup> reported an increase in general wage rates from an index of 89 in 1907 to one of 218 in 1921, using the 1913 level as the base, or 100 per cent. In other words, the same research organization found that during this period wage rates for union workers, although increasing rapidly, just about kept pace with the increase in costs of living and with the increase in wage rates for workers in general. Hence it is difficult to find statistical evidence in these particular studies covering the period from 1907 to 1921 for a disproportionately great increase in the wages of union workers, as compared with those of all workers, even though the wages of skilled workers were consistently higher than those of all workers.

It can be argued deductively that the benefits of unionization were so great that they were diffused to all groups of workers, and not limited merely to their own membership. It will be remembered that the years from 1907 to 1921 represented a period of growth in trade-union membership. Hence it can be argued that the strengthening of trade unionism was accompanied by a general increase in wages. But the development of unionism may have been a result, rather than a cause, of increases in

<sup>1</sup> CARLTON, F. T., "History and Problems of Organized Labor," p. 130.

<sup>2</sup> U. S. Bureau of Labor Statistics, "Wages and Hours of Labor," *Bulletin* 302.

<sup>3</sup> See p. 187.

<sup>4</sup> *Monthly Labor Review*, vol. 12, p. 74, February, 1921.

wages. Again, both increased wages and increased union strength may have been joint results of the general economic prosperity of the period. In any event, even though union wage rates may not have increased disproportionately during the period from 1907 to 1921, the differential advantage in wage rates of organized workers over all workers persisted with only minor modifications.

It is evident that, at any given time, wage rates have been, and now are, higher in those occupations which are highly organized than in those which are unorganized, although over a particular period of time the gains of organized labor may not have been greater than those of labor in general. In this connection, the student should review the findings of Professor Douglas concerning wages in different occupations given on page 169.

**18. Differences in Wage Rates in Organized and Unorganized Industries.**—The following table gives hourly wage rates in five selected industries from 1880 to 1929. The contrast at any time between the wages of organized workers and those of unorganized workers is a striking one. Wages of bricklayers, who have been well organized, were approximately twice as great as those of unorganized spinners in the cotton-textile industry, although the ratio varied greatly from year to year. Wages of machinists, painters, and printers were lower than those of bricklayers, but higher than those of cotton-textile workers.

HOURLY WAGE RATES OR EARNINGS IN FIVE SELECTED OCCUPATIONS, 1880 TO 1929

Year	Mule spinners (cotton textiles)	Bricklayers, New York City	Machinists (printing)	Painters	Compositors (newspapers)
1880	\$0.16	\$0.31	\$0.18	\$0.18	\$0.21
1885	0.15	0.44	0.25	0.20	0.25
1890	0.16	0.44	0.25	0.21	0.25
1902	0.22	0.65			
1910	0.22	0.70	.....	0.47	0.53
1916	0.35	0.75	0.61	0.57	0.58
1920	0.83	1.06	0.74	1.04	0.92
1924	0.75	1.50	1.09	1.17	1.08
1929	0.63	1.87	1.05	1.37	1.20

"Recent Social Trends," vol. 2, p. 815, from section entitled "Labor Groups in the Social Structure" by Leo Wolman and Gustav Peck.

Figures from 1880 to 1890 from *Aldrich Report on Wholesale Prices, Wages and Transportation*; figures from 1902 to 1929 from special bulletins of U. S. Bureau of Labor Statistics. The data represent earnings for all occupations prior to 1910 and for mule spinners throughout the period; for the other occupations the data represent rates per hour for the years 1910 to 1929.

**19. Summary.**—The disadvantages of individual workers under the present wage system gave rise to modern collective bargaining. The century following the industrial revolution witnessed the growth of various kinds of labor organizations.

Their principal objectives were the raising of wages and the shortening of the working hours, rather than an improvement in the general working conditions. A third function of trade unionism has been the maintenance of its power of collective bargaining. In addition to these primary functions of labor organizations, they possess numerous secondary functions, such as those of education, social intercourse, fraternal benefits, unemployment relief, and strike benefits.

Collective bargaining has been defined merely as group negotiations, rather than those of isolated individuals. Organized labor, however, insists that collective bargaining of the workers includes the closed shop, the walking delegate, and numerous other weapons of organized labor.

The open shop is one in which both union and non-union men may be employed. The closed shop is one in which only union workers may be employed. Although management has claimed that the open shop is democratic, in practice it has frequently been anti-union. Trade unions regard the closed shop as essential to the preservation of their organization and of the right of collective bargaining.

Company unions are associations of the employees of a given plant. The organization follows the lines of the business organization, rather than of the craft or industry. Organized labor objects to company unions on the ground that they are subservient to management. The right to employ an outsider or a walking delegate is regarded as essential to effective collective bargaining.

"Yellow-dog" contracts were "voluntary agreements" of the workers not to join a union. The signing of such an agreement was sometimes a prerequisite of employment. The passage of the Norris-LaGuardia Act in 1932 and of the National Industrial Recovery Act in 1933 made such coercion illegal.

Black lists constitute another weapon of the employers, who may compile and circulate the names of those workers who have been active in labor disputes. Blacklisting has been upheld as legal by the courts.

Counterweapons of the workers are their fair lists of employers who are favorable to labor. Again, union labels may be placed on the products of the closed shop in which good working conditions and union hours and wages prevail. The union label is an attempt to organize the workers as consumers.

Trade unions can raise the wages of their members by such monopoly practices as the limitation of apprentices. This creates an artificial scarcity in the supply of one type of labor and, hence, raises its wages. Restriction of output is an attempt to stretch out employment and to lessen the strain of industry.

Collective bargaining has often raised money wages, rather than real wages, and the wages of organized groups, rather than those of unor-

ganized groups. However, it has limited the field of competition among various workers and secured for each group in wages its full marginal product. Thus it has prevented exploitation of the workers because of their bargaining disadvantages. In any event, the wages of organized workers have been consistently higher than those of unorganized workers, although this differential may be due, not so much to the organization of labor into trade unions, as to the marked differences in the supply of skilled labor and that of unskilled labor in proportion to their respective demands. Collective bargaining may be viewed as an attempt to standardize labor and to equalize the competitive strength of the two parties to the labor contract.

### Collateral Reading

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- BLOOMFIELD, D., "Problems of Labor," pp. 243-269 and 301-313.
- BLUM, S., "Labor Economics," chaps. 5, 15, 16, and 17.
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- ESTEY, J. A., "The Labor Problem," chaps. 3, 4, and 5.
- FURNISS, E. S., "Labor Problems," chaps. 10 and 11.
- GOMPERS, S., "Labor and the Employee," chaps. 3, 4, 5, and 8.
- GROAT, G. G., "Organized Labor in America," chaps. 16, 17, 18, and 19.
- HOXIE, F. R., "Trade Unionism in the United States," chaps. 10 and 11.
- OSBURN, W. F., "Democracy in Reconstruction," chap. 12.
- TANNENBAUM, F., "The Labor Movement," chaps. 13 to 16, inclusive.
- WATKINS, G. S., "Labor Problems," chaps. 20 and 21.
- YODER, D., "Labor Economics and Labor Problems," chap. 16.

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- U. S. Commission on Industrial Relations, *Report*, vol. 1, especially pp. 115-119, 1916.
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### Questions for Discussion

1. Differentiate between the primary and secondary objectives of labor organizations.
2. What are some of the disadvantages of individual bargaining?
3. What do you understand by collective bargaining?
4. What practices do you regard as essential to it? Why?
5. What are company unions and why do they not represent effective collective bargaining?
6. What is a "yellow-dog" contract?
7. Make out a case for or against the open shop.
8. Contrast the black list, the white list, and the fair list.
9. How does labor justify restriction of output? Criticize.
10. How does labor justify limitation of apprentices? Criticize.

### Topics for Investigation

1. Powers, duties, accomplishments, and dangers of walking delegates.
2. "Yellow-dog" contracts of certain business organizations.
3. The open-shop program of employers' associations.
4. History and present status of the union label.
5. Restriction of output in certain specific occupations.
6. Limitation of apprentices in certain specific occupations.
7. Effect of the Norris-LaGuardia Act on yellow-dog contracts.

## CHAPTER XV

### LABOR DISPUTES AND WEAPONS OF LAST RESORT

#### PROBLEMS OF INDUSTRIAL CONFLICT

**1. Development of Strikes.**—Although strikes are associated with modern industrialism, their forerunners were the slave insurrections of ancient Rome and the peasants' revolts in medieval Europe. Even before the advent of modern capitalism, class struggle along economic lines existed. But strikes in the strict sense of the word did not occur until the development of capitalism and the wage system. However, references to strikes among journeymen and hired craftsmen may be found in the chronicles of the fourteenth, fifteenth, and sixteenth centuries.

The first recorded strike in America was that of the journeymen bakers of New York City in 1741 for increased wages. The bakers were tried and convicted of conspiracy, but no record remains of a sentence passed against them. Other sporadic illustrations of local strikes can be found in the closing years of the eighteenth century and the opening years of the nineteenth century. During the period of rising prices before the panic of 1837, a relatively large number of strikes occurred.

It was not until after the Civil War, however, that the problem of strikes assumed its modern character and importance. The first national labor dispute in the United States was the railway strike of 1877. Although the chief disturbances centered about Pittsburgh, riots were general and interstate commerce was crippled. Considerable property was destroyed, and a resort was finally made to the militia.

**2. Extent of Strikes.**—Prior to 1881, statistics of industrial disputes were very incomplete. From 1881 to 1905, however, the Bureau of Labor Statistics attempted to compile information as to strikes and lockouts. During this quarter of a century, there occurred 36,757 strikes and 1,546 lockouts, or an annual average of between one and two thousand labor disturbances.<sup>1</sup> The average length of these strikes per establishment was 25 days, and of lockouts 85 days. Approximately 200,000 establishments and 7,000,000 workers were affected. More than half of these strikes occurred in the great industrial area represented by Massachusetts, New York, Pennsylvania, Ohio, and Illinois. Peak years were 1894, the year of the Pullman strike, and 1902, the year of the anthracite miners' strike.

<sup>1</sup> *Twenty-first Annual Report of U. S. Commissioner of Labor.*

The World War and the period of reconstruction which immediately followed it were characterized by an increased number of industrial disputes. It will be remembered that this period was one of inflation and rapidly rising prices. In the two years 1917 and 1918, the total number<sup>1</sup> of strikes and lockouts was 7,572, or about one-fifth as many as in the entire period from 1881 to 1905. For the period from 1916 to 1921,<sup>1</sup> inclusive, there were 20,062 strikes and lockouts, or a yearly average of over 3,000. This yearly average was about twice as high as that for the period from 1881 to 1905.

The period of relative stability and prosperity between the minor depression of 1921 and the major depression from 1929 to 1933 saw a decided decrease in the number of industrial disturbances, as recorded by the U. S. Bureau of Labor Statistics. Thus, in 1921, there were slightly more than 2,000 strikes and lockouts, as compared with over 3,000 in each of the five preceding years (in 1917 over 4,000). In 1922, there were slightly over 1,000 strikes. Between 1923 and 1926, the annual number of labor disturbances was between 1,000 and 1,500. From 1927 to 1932, the annual number of strikes and lockouts was less than 1,000.

The gradual reduction of labor disturbances in the period from the war time inflation to the recent one of reconstruction can be seen in the following table:

LABOR DISPUTES AND WORKERS INVOLVED, 1916 TO 1930<sup>1</sup>

Period	Average number of disputes per year	Relative number of disputes, per cent <sup>2</sup>	Average number of workers involved per year	Relative number of workers, per cent <sup>2</sup>
1916-1921	3,503	100	1,798,809	100
1922-1925	1,304	37	863,051	48
1926-1930	791	28	244,949	13

<sup>1</sup> Doury, H. M., "The Trend of Industrial Disputes, 1922 to 1930," *Journal of American Statistical Association*, p. 169, June, 1932. Quoted in "Recent Social Trends," vol. 2, p. 841.

<sup>2</sup> Base—1916-1921 = 100 per cent.

Many causes of the decrease in labor disturbances in the decade before 1933 can be cited. The period of stability and prosperity between the first two postwar depressions was characterized by increased wages and improved managerial policies. Again, the development of company unionism and the stagnation of trade unionism during this period made for industrial peace. The depression from 1929 to 1933 made strikes futile, even in the face of distressing working conditions.

Immediately following the passage of the National Industrial Recovery Act, which legalized collective bargaining, a sharp increase in the

<sup>1</sup> *Monthly Labor Review*, May, 1922.



number of industrial disputes took place. There was a tendency on the part of some employers to avoid recognition of trade unions and to circumvent or to ignore the new legislation. On the other hand, organized labor, in some cases, turned its new liberty into license by arrogant and arbitrary action. In order to prevent interference with his recovery program, President Roosevelt revived the war-time emergency experiment of President Wilson. In the summer of 1933, a

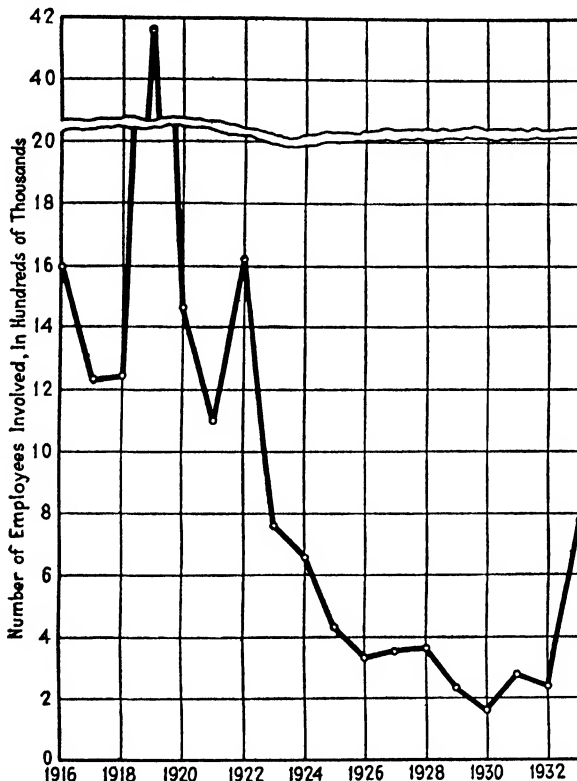


CHART 47.—The strike curve. (Reproduced from *New York Times*, Sunday, May 27, 1934.)

pronouncement against strikes and lockouts was issued by a combined council of employers, organized labor, and the Federal government.

**3. Nature and Kinds of Strikes.**—The U. S. Bureau of Labor has defined a strike as “a concerted withdrawal from work by a part or all of the employees of an establishment, or several establishments, to enforce a demand on the part of the employees.” The counterweapon of the employer is the lockout. Both are manifestations of industrial unrest and represent conflict rather than cooperation.

The causes of strikes and lockouts are similar, and the result is the same, *viz.*, a cessation of work. In the former case the initiative lies

with the employees, and in the latter case with the employer. However, this distinction means very little, for employers can create conditions which result in strikes and employees can create conditions which result in lockouts. A scientific analysis of the causes of both international and industrial warfare requires more knowledge than merely which party to the conflict fired the first gun.

Strikes may be either positive or negative. They are said to be positive if the workers are making demands for improved conditions of labor, but negative when they are striving merely to maintain existing standards. Thus the Massachusetts Bureau of Labor differentiates between attack strikes and defense strikes.

Strikes may be classified according to their extent, as well as according to their purpose. Thus there are local, national, and international strikes. Local strikes are those which are confined to a particular plant or plants in a given occupation and within a small area. National strikes affect an entire industry and are operative throughout the country. Illustrations are the coal and railroad strikes. An international strike, as the name implies, is not confined within one national boundary. International strikes are relatively rare, although the effects of any large strike may be international.

The general strike involves the cessation of work in all industries. Such a drastic measure can be explained only in terms of such far-reaching objectives as the overthrow of the existing economic system. The sympathetic strike is the cessation of work by employees in other industries than the one in which the strike originated. It is apt to be unsuccessful and is rarely used by the trade unions belonging to the American Federation of Labor. Fellow workers in other industries can cooperate with the strikers more effectively as consumers than as producers. A sympathetic boycott is generally more practical than a sympathetic strike.

**4. Causes of Strikes.**—Industrial disturbances, like international conflicts, have a number of causes. These are frequently so blended that it is difficult to isolate a single cause and to distinguish between immediate and remote causes. Some leading causes of industrial unrest have been indicated in our discussion of the demands of organized labor.

The causes of strikes are varied and obscure. Many—far more than people understand—are not economic in nature, but the result of the tactlessness and inefficiency of management or of labor leaders in precipitating situations which could have been handled in a less inept or offensive manner. Other strikes are the reactions to economic pressures in which employers and unions play only incidental, though conspicuous, parts. There is one small group of strikes in which the issue is not between labor and capital at all, but between rival groups of workers engaged in factional or jurisdictional disputes.<sup>1</sup>

<sup>1</sup> FELDMAN, HERMAN, "Increase in Nation's Strikes Spurs Debate on Labor Issue," *New York Times*, Sunday, May 27, 1934.

The chief causes of strikes are to be found in the demands for increased wages, for a reduction in the number of hours of work, and for a recognition of the union and union rules. The chief cause of over half the strikes from 1881 to 1905 was a demand for higher wages or a protest against lower wages. Although still the chief cause of industrial disputes, the wage question seems to be declining in relative importance as compared with purely union causes of strikes, such as a demand for recognition, status, or jurisdiction.

The Bureau of Labor Statistics classified the causes or combination of causes of almost 25,000 strikes occurring between 1916 and 1926. As a group, wage issues, either singly or combined with other issues, figured in fully three-fifths of all cases. The matter of hours of work was the sole cause in only 4 per cent of the total, and one of several issues in only 12 per cent of the total. Recognition and other union issues constituted the chief causes in scarcely one-fifth of the total number.

The passage of the National Industrial Recovery Act was followed not only by an increased number of labor disturbances, but also by a change in their causes. Industrial disputes coming before the newly created National Labor Board involved failure of the employer to recognize the union or to grant collective bargaining, interference with union campaigns, discriminations against union members, and other violations of Sec. 7a of the National Recovery Act in approximately three-fourths of all cases coming before the national and regional boards. The wage issue lost, temporarily at least, its former primacy as a cause of labor disputes.

**5. Industrial Significance.**—It is a controversial question as to whether industrial disputes are to be associated more with periods of prosperity or more with periods of depression. In the former case strikes are probably more numerous, but in the latter case they are apt to be more serious and protracted. Strikes are symptoms of industrial unrest, which is most acute in periods of economic readjustment, whether the period is one of business prosperity or one of economic depression. On the whole, however, periods of prosperity and recovery are more productive of labor disputes than are periods of depression. Hence strikes have been called growing pains of industrial and social progress.

Strikes are militant protests against existing industrial conditions, just as a high rate of labor turnover represents a passive and unorganized protest. In their final analyses, strikes are dangerous symptoms of industrial unrest in the same way that boils are symptoms of a disordered system. Something more than mere alleviation or temporary relief is necessary in both cases.

The growing strength of organized labor is making the strike a more formidable device of collective bargaining. It is an economic weapon, the continued use of which has serious consequences, not only to both

labor and capital, but also to the general public. Recent strikes or threats to strike in key industries, such as the coal mines and the railroads, have made the problem one of great national importance. Causes of strikes must be studied and an attempt made to avert them, as well as to regulate them, by the elimination of illegal methods and unsocial practices.

**6. Success of Strikes.**—The success of a strike is difficult to measure. There are indirect, as well as direct, results. Moreover, any resultant gains must be balanced against the losses sustained during a strike.

In periods of industrial prosperity, the workers are more successful than employers, while in periods of business depression the employers are more successful. In 1917, for example, employees won twice as many strikes as employers; while in 1921 the ratio was practically reversed. The success of a strike is conditioned also by the strength of the union and the state of public opinion.

It has been contended that the proportion of successful strikes has been decreasing. This has been explained in terms of an increasing centralization in the control of capital. Such generalizations, however, are not always true, except for a rather short period of time. Moreover, even if it is true, the complete explanation of the situation is more complex than the single reason advanced.

**7. Legality of Strikes.**—The legality of trade unions and the right of labor to organize are now assured. Nevertheless, many methods of collective bargaining and numerous practices of labor organizations are of doubtful legality.

The strike as a collective cessation of work in a peaceful manner is recognized as legal, where the aim is an improvement in the wages, hours, and working conditions of the employees. On the other hand, where the primary purpose of the strike is to injure the employer or his non-union workers, it is generally regarded as illegal. In other words, the intent of the strike must be carefully considered. Moreover, the manner of conducting a strike also is important. In order to be legal, in most states, strikes must be free from the elements of coercion and intimidation.

It can easily be seen that there is a contradiction or paradox involved in such a statement of the legality of the strike. This difficulty cannot be avoided, for there is necessarily a conflict in all labor disputes, not only of economic interests, but also of legal rights. Indeed, the courts themselves are neither clear nor altogether consistent in the matter of the legality of strikes. It would seem that workers possess the right to quit work collectively when the purpose of such a strike is an improvement of working or living conditions. But such an act is bound to be one of coercion, if not of actual intimidation. Hence it conflicts with the employer's legal right to do business and to have free and unrestricted access to the labor and commodity markets.

The laws on the legality of strikes, as well as their judicial interpretation, vary greatly from state to state. Many types of strikes were forbidden in Kansas when the compulsory arbitration of industrial disputes was in vogue. On the other hand, all strikes are legal in California; in this state the problem involved is chiefly one of the legality of the methods used in conducting a strike. The California law merely insists on the absence of violence, intimidation, and coercion.

The legality of a strike depends on the industry, as well as on the state, in which it occurs. There is a growing feeling against strikes on the part of public employees. Thus the strike of the Boston policemen in 1919 was universally condemned. A strike of the railroad workers, likewise, would paralyze the industrial life of the nation and cause untold suffering. It would seem that the essential nature of an industry must limit the right to strike, rather than merely increase its potential effectiveness. Such was the thought behind the Kansas law.

Although strikes may be illegal, it is difficult to prevent them. An individual possesses the right to quit work, and to compel him to continue his employment against his will would be involuntary servitude. But inducing others to quit work is a very different matter, for the law may condemn such collective action as conspiracy. Such inducing of the workers or agreeing with other workers to stop work is difficult to prove, however, for the cessation of labor may appear to be as spontaneous as it is sudden. In such cases, the courts have decided that the chief responsibility must fall on the agents or officers of the labor organization most directly concerned.

In Massachusetts, the courts have held as illegal strikes which attempt to secure the discharge of non-union workers or members of a rival labor organization, to secure the removal of objectionable foremen, or to secure the reinstatement of discharged employees. All sympathetic strikes have, likewise, been held as illegal in that state. In Connecticut, New Hampshire, and Vermont, strikes against non-unionism in various forms have, also, been regarded by the courts as illegal. In New Jersey, closed-shop strikes and strikes against the use of non-union materials have been regarded as illegal. The courts of Pennsylvania have held as illegal strikes growing out of jurisdictional disputes, the closed-shop issue, and against the use of non-union materials.

Although legislative statutes and court decisions are very divergent in the various states of the Union, it would seem that there are some broad general principles of agreement. By and large, those strikes solely and directly involving wages, hours, and physical conditions of work are generally regarded as legal. On the other hand, strikes to gain the closed shop, strikes to eliminate the use of non-union materials, and sympathetic strikes have frequently been regarded as illegal.

**8. Strike Breaking and Picketing.**—Although a strike may be legal in its intent, the methods involved or the weapons used in its conduct may be illegal. Thus violence and unlawful measures are sometimes resorted to in order to terrorize the employer and those employees who remain at work. Even more serious danger arises when the employer, in turn, endeavors to keep his plant running by filling the vacant places of the strikers with non-union workers.

Strike breakers are groups of laborers who may be rushed from place to place as occasion demands. These industrial mercenaries are composed chiefly of unskilled and casual laborers. They include the ignorant, the reckless, and the indifferent elements in the laboring population. Organized labor has attached the stigma of "scab" to strike breakers. They are hated more intensely than the employers themselves, to whom they are regarded as having sold out. Strike breakers are viewed as taking bread out of the mouths of organized labor and must frequently work under the protection of the guns of the plant guards.

Picketing is an attempt of strikers to persuade employees remaining at work to join the strike. Pickets are placed near the entrances and exits of the plant, where they attempt to dissuade the employees from continuing at work. Picketing may extend from peaceful persuasion to threats of violence and intimidation. It may go from the borders of the plant into the homes of the workers. The scab may find it difficult to buy food and be subjected to numerous other annoyances. He may find his home damaged by some unseen hand, or an unexpected missile thrown at his head. The danger lies not so much in picketing itself as in the violence growing out of it.

The Trades Disputes Act of 1906 legalized peaceful picketing in Great Britain. In the United States, peaceful picketing has likewise been held to be legal. This view was confirmed by the Clayton Act of 1914. On the other hand, intimidation and coercion have been condemned. Peaceful picketing without these attendant evils is very rare. Consequently, the courts have found it necessary to define just what picketing may include.

In December, 1921, Chief Justice Taft gave out the most complete statement as yet issued by the Supreme Court of the United States on the subject of picketing. It was pointed out that there are limits beyond which even persuasion may not go without violating the rights of others. "Persistence, importunity, following, and dogging become unjustifiable annoyance and obstruction which is likely to savor of intimidation." The number of pickets that might be stationed at each point of ingress or egress was limited to one. The worker must be approached singly and not collectively in order for the element of coercion to be absent. "Appeals should not be abusive, libelous, or threatening." This decision

of Chief Justice Taft was viewed by organized labor as destroying the effectiveness of picketing.<sup>1</sup>

The laws and judicial decisions of the individual states on picketing are as varied as those on the subject of strikes. In California, where both the strike and the boycott are legal, the courts have condemned the entire practice of picketing as intimidation. Several other states have passed laws which make picketing illegal. The thought behind such legislation and judicial decisions is that peaceful picketing is impossible.

**9. Nature and Types of Boycotts.**—A boycott is the organized refusal of a number of persons to purchase goods or services from an individual or corporate producer. It has sometimes been used by the public at large as a protest against high prices and monopolies. It has commonly been used by groups of workers and trade unions to bring a recalcitrant employer to terms by checking his sales and, hence, his profits.

The boycott, as contrasted with the union label, is a negative, rather than a positive weapon of organized labor. However, both are similar in that each represents an attempt to organize workers as consumers, rather than as producers.

The simple, or primary, boycott is a refusal by members of a given union, or by a particular group of employees, to buy an article produced by their employers who are, in the judgment of their employees, unfair to union labor. The secondary, or compound, boycott is one which involves other employees or trade unionists than those directly interested in the particular labor dispute. When the members of a union seek to extend the boycott from their own membership to the general public and to persuade or coerce a third party into refusing to buy the product of the obnoxious firm, the primary boycott becomes a secondary boycott. This distinction is difficult to maintain, however, for the boycott spreads gradually as it expands from one labor group to others throughout the entire community.

The success of a boycott, like that of a strike, depends on the strength of the particular union and on the general solidarity of all organized labor. Both strikes and boycotts may involve disinterested individuals and cause great general hardship and financial loss. In a recent street-car strike, for illustration, storekeepers were advised not to sell to individuals who patronized the cars. Thus the boycott and the strike went on simultaneously.

Other famous and effective boycotts were those directed some years ago against the products of the Bucks Stove and Range Company and the Loewe Hat Company. In strong labor communities, stores were forced to discontinue the keeping in stock of any of the products of these

<sup>1</sup> *American Steel Foundries vs. Tri-City Central Trades Council*, 257 U. S. 184, 42 Supreme Court 72. See also *Truax vs. Corrigan*, 257 U. S. 312, 42 Supreme Court 124.

manufacturers. Not to comply with this temporary interdict of organized labor meant the loss of general patronage.

The boycott can be used by the workers as producers, as well as by the workers as consumers. Thus union workers in one place may refuse to work on the non-union products which have been received from another plant in which the open shop prevails. In some cases such a boycott involves an interference with interstate commerce and has been viewed as a combination in restraint of trade. Thus an injunction was successfully sought a few years ago by the Federal government under the Sherman Act against certain California building contractors and dealers who combined to limit sales of materials to those employers who pursued an open-shop policy.<sup>1</sup>

**10. Legal Status of Boycotts.**—The legal status of the boycott is somewhat controversial, but it is more definitely fixed than many other practices of organized labor. Under the common law, the legality of a boycott, like the legality of a strike, depends largely on its intent. In the absence of Federal legislation on the subject, there came into existence a large number of conflicting state laws. Federal courts as well as state courts, however, consistently have ruled that boycotts are illegal if there exists a malicious attempt to injure any one.

In order to be effective, boycotts necessitate the coercion of third parties. Therefore, secondary boycotts may be construed as conspiracies which limit the constitutional guarantees to citizens of life, liberty, and property. An individual may refuse to patronize a given firm, but a group of individuals may not organize to accomplish this objective collectively. The power to harm is greater and the element of conspiracy is present in such collective action.

If free from malicious intent, from violence or threats of violence, and from the attempt to coerce third parties, the boycott has generally been viewed as legal. Such a boycott, however, is as rare as "civilized warfare." The only effective boycott is the secondary boycott. But although the primary boycott has generally been viewed by the courts as legal, the secondary boycott has not been so regarded.

Boycotts have been viewed also as an interference with interstate commerce. Hence, the passage of the Sherman Act of 1890 meant that boycotts might be indicted as combinations in restraint of trade. Such was the ruling in the famous Danbury Hatters case of 1908 in which the courts awarded the Loewe Hat Company triple damages as provided by the law.<sup>2</sup> As a result of this decision, the American Federation of Labor felt it necessary to discontinue its "We Don't Patronize" list in its official organ, for fear that such a list might be construed as an illegal boycott or a combination in restraint of trade.

<sup>1</sup> *Industrial Association vs. United States*, 268 U. S. 64, 45 Supreme Court, 403, 1925.

<sup>2</sup> *Loewe vs. Lawler*, 208 U. S. 274, Supreme Court 301, 1908.



The Clayton Act of 1914 declared that labor unions, as such, should not be viewed as violations of the Sherman Act, although the right of injunction remained against threatened damage by a violation of the anti-trust laws through unfair practices. Boycotts were permissible if carried on by peaceful and lawful methods, and no injunction should be issued against them. They were not to be considered violations of the law whether done singly or collectively.

It remained for the courts to decide whether the Clayton Act had changed materially the legal status of boycotts. In 1921, the United States Supreme Court rendered an important decision<sup>1</sup> in the case of the Duplex Printing Press Company. It held that labor unions were not relieved of liability where they went outside their normal activity and committed acts violating other laws. Moreover, boycotting by individuals other than those directly concerned in the dispute and especially the inducing of others to boycott was held to be unlawful. The right of injunction against these activities was sustained. Thus it would seem that the secondary boycott remains illegal, and that the Clayton Act has not materially changed its legal status.

Another interesting case was that of the Bedford stone cutters passed on by the Supreme Court in 1927.<sup>2</sup> An injunction had been issued against the General Stone-cutters' Union with local branches in many states, restraining it from ordering its members not to work on stone produced by the Bedford Cut Stone Company. Although this boycott was a peaceful one, the opinion of the court was that the restraint imposed by the union was unlawful under the Sherman Act. The precedent of the Duplex case was cited by the court in its contention that boycotts had not been made immune by the passage of the Clayton Act.

**11. Injunctions in Labor Disputes.**—An injunction is an order from a court in equity to a particular individual or to various individuals to do or to cease from doing certain specified things. The judge issues the order, determines whether it has been disobeyed, and fixes the penalty for violations. Any one who violates such a court order becomes guilty of contempt of court and may be punished summarily without recourse to cumbersome judicial routine.

The injunction is naturally an emergency measure designed to prevent irreparable injury to persons or property until a final determination of rights can be made. It was originally intended to cover non-statutory offenses. Of recent years, this weapon has become a rather common resort in industrial disputes. Moreover, instead of specifying a particular act or acts, "blanket" injunctions frequently have

<sup>1</sup> *Duplex Printing Company vs. Derring*, 254 U. S. 443, 41 Supreme Court 172, 1921.

<sup>2</sup> *Bedford Cut Stone Company vs. Journeymen Stone Cutters' Association*, 274 U. S. 37, 47 Supreme Court 522, 1927.

been issued. Moreover, they have been used to enforce, rather than to supplement, the law.

One of the first uses of the injunction in labor disputes was in the famous Debs case of 1895. It grew out of the strike of 1894 which the American Railway Union was conducting against the Pullman Company. The public suffered from an interference with interstate commerce and a delay of the mails. Accordingly, the court issued an injunction against officials of the union and any other persons from interfering with interstate commerce and the transportation of the mails. Disobedience of this order was punished as contempt of court, in spite of the fact that under existing Federal statutes interference with the mail was already specified as a crime. The injunction further enjoined any persons from "compelling or inducing by threats, intimidation, *persuasion*, force or violence any railroad employees from quitting work." For a violation of this injunction Eugene Debs was tried for contempt of court and sentenced to a prison term.<sup>1</sup>

Another flagrant abuse of the injunction was in the Bucks Stove and Range Case of 1911. The workers had been utilizing a boycott in order to unionize the workers in the plant of this company. A court writ was secured against this boycott of the products of the Bucks Stove and Range Company on the part of "the officers of the American Federation of Labor, officers and members of affiliated unions, friends, sympathizers, counsel, conspirators, and co-conspirators." They were forbidden even to refer directly or indirectly, by printed, written, or spoken words to the supposedly unfair practices of the company and to the very existence of an industrial dispute. Such a court order prevented the circulation of the proceedings of a convention of the American Convention of Labor. If literally carried out, it would have terminated many constitutional guarantees to citizens. Freedom of speech or of the press was denied when it was used to promote such an illegal conspiracy as a secondary boycott. As a result of the injunction issued in the Bucks Stove and Range Case, Messrs. Gompers, Mitchell, and Morrison were indicted and given jail sentences for contempt of court. One of the offenses alleged against them was the "printing of the text of the injunction in the *Federationist*."<sup>2</sup>

Two of the most drastic injunctions in labor disputes were secured by the Federal government through its Department of Justice. One was obtained in 1919 under the Food and Fuel Control Act. It prohibited the officers of the bituminous-coal miners from calling a strike, directing it, or even touching the union funds in bank for strike benefits. The other case was the Daugherty injunction against the railway shopmen

<sup>1</sup> In re Debs, 158 U. S. 564, 15 Supreme Court 900, 1895.

<sup>2</sup> *Gompers vs. Bucks Stove and Range Company*, 221 U. S. 418, 31 Supreme Court 492, 1911.

issued by Judge Wilkerson in 1922. This court order forbade officials of the union to issue instructions or to encourage cessation of work and forbade conspirators from interfering with railroad operation, picketing, and all intimidation or violence. The court referred to the strike as a conspiracy to disobey the findings of the Railroad Labor Board.

**12. Criticism and Regulation of Injunctions.**—Organized labor has objected to blanket injunctions and to their issuance when no emergency justifies the sacrifice of due process of law. The objections to the injunction, or rather to the abuse of the injunction, are as follows: In the first place, it leads to the sacrifice of the constitutional guarantees of freedom of speech and freedom of the press. In the last place, it is contended that full publicity as to working conditions is desirable, and that the injunction is often used to suppress such facts. Has not a person or combination of persons the right to make public the fact that a given plant pays low wages, works long hours, or opposes the closed shop? If an individual's business is injured, the intent is neither personal nor malicious but merely the general improvement of working conditions.

The Clayton Act of 1914 attempted to remedy some of the abuses of the injunction, as well as to extend the efficacy of the boycott. It provided that injunctions issued by the Federal courts should not prohibit the stopping of work, peaceful picketing, or the refusal to patronize, whether done singly or in concert. Moreover, a jury trial was to be allowed in contempt-of-court cases where the offense was indictable as a crime. It was further provided that no preliminary injunction should be served without notice, unless it was evident that immediate and irreparable injury would result.

Recent judicial decisions, some of which have been cited in this chapter, seem to show that the Clayton Act has not restricted the power of the injunction any more than it has increased the power of the boycott. Even had it been enforced or enforceable, the Clayton Act applies only to the Federal courts and not to the state courts.

State legislation, however, has also attempted to limit injunctions and to prevent their abuse. But these efforts also have met with little success. An anti-injunction law was passed in 1913 by the state of Arizona, but it was declared unconstitutional by the Supreme Court of the United States in 1921.

**13. Norris-LaGuardia Act.**—As a result of frequent and flagrant abuses of the injunction in labor disputes and of the failure of Supreme Court decisions to suppress or to limit these abuses, Congress passed by an overwhelming vote in both houses the Norris-LaGuardia Anti-injunction law of 1932.

Section 4 of this law provides that no Federal court may issue an injunction to prohibit workers, singly or collectively, from ceasing or refusing to work; from becoming or remaining a member of a union,

regardless of any previous promise not to affiliate therewith; from paying or withholding strike or unemployment benefits; from aiding by lawful means any person participating in a labor dispute who is involved in court action; from giving publicity to the facts of any labor dispute by advertising, speaking, or patrolling or any other method not involving fraud or violence; from assembling peacefully or organizing to act in promotion of labor interests in a labor dispute; from advising or notifying any person of intention to do so; from agreeing with other persons to do so or not to do so; from advising or urging without fraud or violence other persons to join with them in doing or not doing any of these acts.

Section 5 of the Norris-LaGuardia Act of 1932 attacked the old common-law principle of conspiracy which held that an act, when lawful when done by one person, might be unlawful when done collectively. It affirmed the long-accepted British principle that no persons engaged in a labor dispute should be judged guilty of conspiracy merely because of collective action.

Section 6 disavowed blanket responsibility for things done by individual union members, such as was implied in the Danbury and Coronado decisions. It provided that no Federal court should hold any union agent, officer, or member liable for unlawful acts committed in the course of a labor dispute "except upon clear proof of actual authorization, participation or ratification of such act." Such a statute is also in line with the long-accepted principle of British law. It puts the burden of proof on the accuser, and not on the accused. It makes necessary the apprehension of the individual criminal or criminals and does not diffuse responsibility over an entire organization.

The passage of the Norris-LaGuardia Act was hailed as another great triumph of labor over management and of human rights over property rights. The future will tell whether this law will be a true Magna Charta of labor or will suffer the fate of the once highly praised labor provisions of the Clayton Act. At present, it looks like a very effective Federal statute designed to clarify collective bargaining in the United States and to raise the legal status of organized labor in this country up to the high plane of British trade unions.

**14. Economic and Social Losses of Industrial Conflicts.**—Attempts to compute the cost of industrial conflicts are as varied as attempts to estimate the cost of the World War. Thus the Bureau of Labor Statistics estimated that the total loss due to strikes and lockouts from 1881 to 1900 was almost a half billion dollars. This is a large lump sum, but it becomes very small when divided among the number of people concerned or spread out over these twenty years on a weekly basis.

The workman has probably spent less than 1 per cent of his income on strikes. According to Mr. Mitchell, the total loss in employment due to strikes from 1881 to 1900 amounted to 194,000,000 days, but, when

spread over the 20 years and among the large number of workers affected, it amounted to less than 1 day per year per adult worker.<sup>1</sup>

Official estimates for the United States show that the average industrial worker loses twenty days a year from illness, accidents, and various personal reasons. When compared with the total volume of unemployment, the unemployment due to strikes and lockouts is not very great. Moreover, when strikes and lockouts take place in slack seasons or in periods of economic depression, the resulting unemployment is not due entirely to these industrial conflicts.

The indirect losses of industrial conflicts are probably greater than the direct losses, and the social costs greater than the economic. One of their most serious features is the disorder which often accompanies strikes and lockouts. Conservative labor leaders deplore the use of violence which frequently acts as a boomerang and alienates public sympathy. Revolutionary unionism, on the other hand, condones the use of open or secret force.

Strikes of well-organized unions of skilled workers are less apt to be accompanied by violence than those of poorly organized and unskilled workers. A large portion of the disorder which accompanies strikes can be ascribed to neither the employers nor the striking employees. It is the work of the various lawless elements in the community which have no regard for law and order and which care little for either human or property rights.

The attempt of an employer to use strike breakers often converts peaceful strikes into scenes of violence. This was the situation at Herrin, Ill., where it was necessary to proclaim martial law. Although strikers have sometimes asserted that troops are employed in order to break strikes and to weaken labor organizations, such measures become necessary when the local civil authorities are no longer able to cope with the situation. In times of grave disorder, Federal aid can be requested, for the Constitution provides that a republican form of government shall be guaranteed to the individual states. Industrial conflict may not only result in a destruction of life and property but it may also endanger, for a time, the very existence of a democratic form of government.

**15. Summary.**—Strikes are weapons of last resort in the warfare between organized labor and capital. They are symptoms of industrial unrest which is particularly common in periods of economic adjustment. Strikes were very numerous in the closing decades of the past century and in the opening decades of the present century. Although especially frequent during the World War and the period immediately following it, there was a considerable decrease in the number of these industrial disturbances from 1922 to 1932. The passage of the National Industrial

<sup>1</sup> MITCHELL, J., "Organized Labor," pp. 309-310.

Recovery Act, however, was followed by an increase in the number of labor disturbances which continued through the recovery period.

The chief cause of strikes has been the desire for increased wages or opposition to wage decreases on the part of the workers.<sup>1</sup> Of recent years, an increasingly important cause of strikes has been the controversy concerning the rights and weapons of collective bargaining, *i.e.*, about union organization and methods. A third important cause of strikes concerns hours of work.

Strikes are apt to be numerous and successful in periods of prosperity and rising prices. In periods of depression and falling prices they are less numerous and less successful, although they are apt to be severe and protracted.

The legality of a strike depends on its intent and on the methods used in conducting it. The strike as a collective cessation of work in a peaceful manner is generally regarded as legal, where the aim is an improvement in the wages, hours of labor, and working conditions of the employees. The legality of strikes, as well as of the methods used in their conduct, varies from state to state.

Strike breaking is the substitution of unorganized workers for those union employees who have gone on a strike. Picketing is an attempt of the union strikers or their sympathizers to persuade the employees at work to join the strike. It is lawful if free from coercion or intimidation. Strike breaking is apt to be accompanied by violence.

Boycotts are organized refusals to purchase the goods or to use the materials of those employers who are hostile to organized labor. A primary boycott concerns only those who are parties to the dispute. A secondary boycott involves the general public and parties not directly involved in the dispute. Although primary boycotts have generally been regarded as legal, secondary boycotts have commonly been regarded as combinations in restraint of trade and as an unwarranted interference with interstate commerce.

Strikes and boycotts are weapons of the employees, but injunctions have more frequently been used by employers in labor disputes. An injunction is an order from a court in equity to a particular individual or to various individuals to do certain things or to refrain from doing particular acts. The violator of an injunction may be punished summarily for contempt of court.

The original purpose of the injunction was to afford immediate relief against a threatened loss of life or property until an adjudication of rights could be made. But the increased use of injunctions in labor disputes has been accompanied by the issuance of blanket injunctions and injunctions which restrain individuals from acts which are already specified as statutory offenses and from acts which are in accordance with civic liberties and constitutional guarantees. Organized labor

has bitterly criticized the use and the abuse of injunctions in labor disputes.

The Norris-LaGuardia Act of 1932 restricted the power of Federal courts to issue injunctions in labor disputes. It also attacked the doctrine of conspiracy and limited the liability of labor organizations involved in industrial disputes.

Various attempts have been made to estimate in monetary terms the costs of strikes and other industrial disputes. This annual charge on industry surely runs into millions of dollars. Even more serious than these economic losses, however, are the social costs of industrial disputes, as represented by deeds of violence, acts of crime, and class hatred. The present chapter on industrial conflict will be followed by one on industrial peace, in which various methods of preventing and arbitrating industrial conflicts will be discussed.

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#### Questions for Discussion

1. What periods have been characterized by frequent strikes and what by a relative freedom from these labor disturbances? Can you give any reasons?
2. Outline different types of strikes.
3. When are strikes apt to be successful? When unsuccessful? Why?
4. Discuss the legality of strikes.
5. Discuss the legality of picketing.
6. Differentiate between the primary and the secondary boycott.
7. Discuss the legality of boycotts.
8. What is an injunction? Defend its use.
9. How may injunctions be abused?
10. Illustrate the economic and social costs of industrial disputes.

#### Topics for Investigation

1. Causes of strikes and their changing character.
2. Effects of the Clayton Act of 1914 upon the boycott, the injunction, and the general subject of collective bargaining.
3. The sympathetic strike and the general strike.
4. The railway strikes of 1877 and 1894.
5. Debs case of 1895.
6. The anthracite coal strike of 1902.
7. Industrial conflicts in the union and non-union bituminous fields.
8. Danbury Hatters' case.
9. Buck's Stove and Range case.
10. Boycotts against the open shop and non-union materials.
11. Duplex Printing Company case.
12. Bedford Stone Cutters' case.
13. Effects of the Norris-LaGuardia Act on the use of injunctions in labor disputes.



## CHAPTER XVI

### INDUSTRIAL CONCILIATION AND ARBITRATION

#### PROSPECTS OF INDUSTRIAL PEACE

**1. Change of Attitude.**—The *laissez-faire* philosophy of government was possible as long as competition prevailed, industries were small in size, and the workers were unorganized. The development of modern industrialism has made such an economic philosophy no longer tenable. The rise of collective bargaining has meant the growth of strong organizations of employers and of employees, some supervision of whose activities is clearly within the scope of modern government.

The economic and social costs of modern industrial conflicts are so great that the general public can no longer remain a mere spectator or a silent partner. Today, the social control of industry is crystallizing into new and varied forms. Industrial peace, like international peace, is seeking articulation in some practical forms, as well as in mere idealistic expressions.

**2. Methods of Adjusting Industrial Disputes.**—The chief methods for the settlement of industrial differences are trade agreements and arbitration within industry, and also mediation, arbitration, and investigation on the part of the state and Federal governments. In industrial, as well as international, relations, the prevention rather than the settlement of conflicts is receiving more attention.

Trade agreements are compacts as to wages, hours, recognition of the union, and general conditions of employment which are made between an employer or an association of employers and organized labor. They represent the normal functioning of collective bargaining between parties of fairly equal strength. An agreement is generally reached at a joint conference between union officials and representatives of the employers. It has a specific time limit, at the end of which a new conference is held for the purpose of drawing up a new trade agreement or reaffirming an old one.

Trade agreements are statements of accepted usages or of approved conditions of employment within an industry. They are moral, rather than legal, compacts, for there is no governmental machinery for their enforcement. Moreover, they are compromises reached at joint conferences between employers and organized labor, at which the general public or the state has no representatives.

The term "conciliation" is sometimes used for the settlement of industrial disputes without the interference of a third party, but the word is more often used as synonymous with mediation. Trade agreements are normal and regular, but conciliation implies the existence of a crisis or the failure to reach an agreement. Mediation is the presence of an outside person or a non-partisan body for the facilitation of industrial peace during such a labor crisis.

Conciliation and mediation are similar in that neither is compulsory or judicial. The mediator has been termed a "confidential advisor" and an "industrial diplomat." His chief function is to help the two sides come to an agreement of their own accord, rather than to render an award or a decision of his own making.

Industrial arbitration, on the other hand, is judicial rather than diplomatic. Arbitration involves the existence of a person, board, or court for the purpose of making an investigation and submitting a decision.

Arbitration may be either compulsory or voluntary, and the acceptance of the award may be either compulsory or voluntary. Thus four possible combinations are possible, *viz.*, (1) voluntary arbitration with voluntary acceptance of the award, which is so ineffective that it is rarely used; (2) voluntary arbitration with compulsory acceptance of the award, which is commonly known as "voluntary arbitration"; (3) compulsory arbitration with voluntary acceptance of the award, which is, in effect, merely compulsory investigation; and (4) compulsory arbitration with compulsory acceptance of the award, which is commonly known as "compulsory arbitration."

Compulsory investigation relies on the weapon of public opinion even more than on legal compulsion. Strikes and lockouts are not prohibited, but they can be delayed until an impartial commission makes an investigation and publishes its findings. Meanwhile, the passions of opposing parties have cooled, and the facts in the case have been ascertained and disseminated. Such a procedure permits the crystallization of an intelligent public opinion, which cannot be defied with impunity by either labor or capital.

**3. Governmental Arbitration and Investigation Compared.**—The various steps in voluntary arbitration have been outlined as follows:

(1) The submission of the dispute to the decision of a third party; (2) submission to an investigation; (3) refraining from a strike or lockout pending investigation; (4) drawing up an award; (5) enforcement of the award and refraining from strike or lockout during its life. Arbitration remains strictly voluntary even if at every step except the first the state uses its compulsory power. The essential thing is that *both* parties consent in advance to calling in the powers of government. Hence, it is not inconsistent with the idea of voluntary arbitration for the

state to use its power of compelling testimony, or even of enforcing an award, provided that both sides have previously agreed that this is to be done.<sup>1</sup>

Under compulsory investigation, the state may step in on the initiative of either party without the consent of the other, or on its own initiative without the consent of either party directly affected by the labor dispute. The state board of investigation is empowered to summon witnesses and to exact testimony, but it is purely a fact-finding organization. Although it may recommend as well as investigate, the board is without legal power to enforce its award. The compulsory postponement of strikes and lockouts during investigation was an important characteristic of the Canadian and Colorado systems, but it is not essential to compulsory investigation.

Compulsory arbitration results when the government compels employers and employees to submit their labor disputes to an independent body and an outside agency for a decision. In compulsory arbitration, all five steps listed for voluntary arbitration are followed, but the first step is no longer optional. Moreover, coercion exists all along the line—the dispute must be submitted to arbitration and the parties must refrain from strikes and lockouts. Witnesses must testify, the board must make a decision, and the parties to the dispute must observe the award during the period specified in the decision.

**4. Relative Advantages of Various Methods of Governmental Action.** Various attempts of governments to adjust industrial disputes may be grouped as mediation, voluntary arbitration, compulsory investigation, and compulsory arbitration. Great Britain, the Federal government of the United States, and most individual states of the Union have utilized mediation and voluntary arbitration. Great Britain and several European countries have employed compulsory investigation but without postponement of the right to strike. Compulsory investigation with compulsory postponement of the right to strike in the meantime has been tried in Canada and Colorado. Compulsory arbitration has been used in Australasia and Kansas. What are the relative advantages and disadvantages of these different systems?

The chief advantage of mediation is that it permits the disputants to solve their own problems. A mutual understanding and a voluntary agreement between the two parties are better than some award imposed by an outside body of arbitration. A governmental commission of mediation accomplishes a great forward step in merely bringing together the two disputants. A discussion of their chief differences develops a knowledge of "the other fellow's point of view." A sympathetic understanding of common differences may develop a way out of the difficulty by some mutually acceptable compromise.

<sup>1</sup> COMMONS, J. R., and J. B. ANDREWS, "Principles of Labor Legislation," rev. ed., p. 137, 1927.

Arbitration and mediation are different stages rather than different methods. After mediation has been tried unsuccessfully, the two parties may agree to submit their differences to an impartial board of arbitration. The voluntary arbitration of industrial disputes, as well as of international disputes, is far superior to the costly methods of fighting them out, described in the last chapter.

It is alleged, however, that an outside board of arbitration cannot be familiar with existing conditions and with the problems at issue. In order to obviate this disadvantage, representatives of both employers and employees are sometimes placed on the board of arbitration in addition to representatives of the general public. In such a tripart body, however, the votes of the first two groups are assured in advance, and the real decision rests, as before, with the representatives of the public. The award of such a non-partisan board of arbitration is apt to be a compromise which is pleasing to neither party. The resulting peace may be only temporary.

Compulsory investigation means an impartial study of the causes of an industrial dispute. More light without more heat is the slogan. A public statement of the findings will rest the case with the great jury of public opinion. The temporary suspension of the right to strike, which is sometimes involved, may result not merely in the postponement of industrial warfare but possibly in its elimination.

**5. Advantages and Disadvantages of Coercion by the State.**—The advocates of compulsory arbitration point out that mediation, voluntary arbitration, and compulsory investigation do not always eliminate industrial conflicts. Compulsory arbitration is defended as a necessary final resort, because of the tremendous economic and social losses involved in strikes. The complexity and interdependent character of modern civilization mean that strikes, lockouts, boycotts, and other weapons of industrial warfare injure countless individuals who are not parties to the disputes. In its final analysis, the case for compulsory arbitration rests on the public welfare which is jeopardized by industrial conflicts. Such legislation springs from the needs of the public, rather than in response to the demands of either labor or capital.

On the other hand, there are numerous strong arguments against this drastic step of coercion by the government. The existence of a powerful board of arbitration, whose award is compulsory, implies the existence of certain standards of justice in accordance with which the judgment is to be rendered. The determination of a just wage is even more difficult than the determination of a minimum wage. Boards of compulsory arbitration have been viewed as price-fixing bodies for the labor commodity. Again, the judicial method of using precedents, wherever possible, makes difficult the development of the concept of a progressive wage.

The enforcement of unpopular decisions is difficult, for individuals cannot be compelled to work against their wills. Most of the verdicts of courts of compulsory arbitration in Australasia and Kansas have been favorable to labor. Nevertheless, the cry of favoritism and prejudice has been raised by the workers as well as by their employers. Moreover, capitalists are opposed to wage boards which seek to regulate conditions of employment and to prescribe rates of wages. Ultraconservatism, on the one hand, and radicalism, on the other, are frequently charged by the defeated litigant and by the implacable foes of compulsory arbitration.

In the last place, the constitutionality of compulsory arbitration is a moot question in the United States. Not only does it restrict the freedom of contract guaranteed by the Federal Constitution but also it has been indicted by extremists as the imposition of conditions of involuntary servitude. It will be shown in a later section that judicial opinion in the United States opposes compulsory arbitration as a general principle, although it may sanction it in public utilities and in some basic industries.

**6. Collective Bargaining and Compulsory Arbitration.**—Organized labor has attacked compulsory arbitration because of the limitations which it imposes on the weapons of collective bargaining. The right of organized labor to strike is necessarily sacrificed. Moreover, trade unions are weakened, for some of their chief reasons for existence are destroyed.

It may be said that the very essence of conciliation, mediation, and voluntary arbitration is the optional acquiescence and participation of the employers and employees. Hence the powers of collective bargaining of neither party are sacrificed. But compulsory arbitration is coercive and affects the bargaining power of both labor and capital.

The workers contend that the loss of the lockout to the employer is not so serious as the loss of the right to strike is to organized labor. The employer is not forced to shut down his plant in order to cut wages, but the workers are often forced to strike, or to threaten such a move, in order to raise or to maintain their wages. In its final analysis, a strike is merely the collective refusal of an employer's terms by his employees. Consequently, it is contended that the loss of the right to strike destroys the essential power of labor to bargain collectively.

If compulsory arbitration is achieved, the state must assume the duty of regulating wages, hours, and working conditions by such institutions as wage boards. It must enforce the payment of minimum wages and the maintenance of decent standards of living. Moreover, the enforcement of such awards must be accomplished without a shutting down of the plant by a lockout or by conditions which make it unprofitable for the employer to continue in business.

Under conditions of compulsory arbitration, the power of the employer, as well as of the employee, to bargain effectively is reduced.

Labor's loss of the right to strike is accompanied by the employer's loss of the power to change wages, hours, and conditions of employment without due notice followed by state investigation. Such essential provisions are far more effective than the mere refusal of the right to institute a lockout. An employer ordinarily finds many reasons for shutting down his plant other than the mere desire to make a show of power.

In some sections of Australasia, compulsory arbitration has been accompanied by minimum-wage laws and minimum-wage boards. In Great Britain and other lands, the employer's power to bargain has been reduced by wage boards and other institutions, although the collective-bargaining powers of labor have not been impaired by legislation in favor of compulsory arbitration and the postponement of strikes. In the United States, on the other hand, many advocates of compulsory arbitration have not been willing to recognize that the reduction of labor's power of collective bargaining through the loss of the right to strike must be compensated for by wage boards for the maintenance of minimum wages, decent standards of living, and acceptable conditions of employment. The mere denial of the lockout to employers is not sufficient.

**7. Mediation and Voluntary Arbitration in Interstate Commerce.**—Shortly after the Civil War, railroad strikes became so common in the United States as to constitute a serious national problem. Congress passed a law in 1888 which provided for voluntary arbitration in the case of industrial disputes in interstate commerce. In 1894, President Cleveland created a commission to investigate the Pullman strike of that year. Out of its report came the Erdman Act of 1898 which provided for mediation and voluntary arbitration in interstate commerce.

The Erdman Act was supplanted by the Newlands Act of 1913. The latter provided for the U. S. Board of Mediation and Conciliation, consisting of a permanent commissioner and two other officials appointed by the President with the advice and consent of the Senate. Unlike the former board, it could act on its own initiative and was not forced to wait for a request for mediation from either party to the dispute and for an acceptance by the other party of its offer of mediation. If a resort to arbitration was necessary, and desired by both parties, the board increased its membership from three to six and sat as a board of arbitration rather than as one of mediation.

The Board of Mediation and Conciliation was fairly successful in settling disputes among railway workers from 1913 to 1916. In the latter year, its efforts at mediation were unsuccessful, for the railroad brotherhoods refused to accept arbitration. In order to avoid a serious nation-wide railroad strike in 1916, Congress intervened by the passage of the Adamson Act which granted the basic eight-hour day in that

industry. Although such action may have been necessary and such legislation desirable, the U. S. Board of Mediation suffered a serious loss of dignity.

During Federal operation of railroads at the time of the World War, the Railroad Wage Commission was established by the director general of the railroads. Various ephemeral railroad boards of adjustment also were in existence during this emergency.

The railroads were returned to their owners under the Transportation Act of 1920. This law provided for the creation of railway boards of labor adjustment and a central Railroad Labor Board. The latter body consisted of nine members, three of whom represented the employers, three the employees, and three the general public. They were appointed by the President and approved by the Senate. During his five years in office, no member could own the securities of any common carrier or be an officer of any labor organization.

It was the feeling of many thoughtful persons that strikes on the part of the employees of public utilities were wrong. It was proposed to make the arbitration of industrial disputes compulsory in the railroad industry. This extreme step, however, was not taken in the Transportation Act of 1920. Although the Railroad Labor Board was a court of final appeal, its decisions were not mandatory. Although it made wage decisions involving a billion dollars, it was often defied by both railroad companies and railroad unions. Owing to its lack of authority the board suffered a constant loss of prestige.

The Railroad Labor Board was abolished by the Parker-Watson Act of 1926 which restored the former method of direct negotiations between the railroads and their employees through local boards of adjustment, for mediation, and for voluntary arbitration. A Federal Board of Mediation, appointed by the President, was created. This body could mediate at the request of either party or on its own initiative in labor disputes, affecting common carriers, which were not settled by the local boards of adjustment. Boards of arbitration were to be provided where mediation failed and both parties were willing to consent to arbitration. If arbitration was agreed to, the award of such voluntary arbitration was to be mandatory and enforceable. But the Board of Mediation could not, on its own initiative, hand down a decision. Even in cases of emergency, it could merely investigate the industrial dispute and give publicity to its findings. The compulsory arbitration of labor disputes, even within interstate commerce, still remains in the very uncertain future.

In 1934, Congress passed a law providing for another Railroad Labor Board somewhat similar to that created by the Transportation Act of 1920. Although it is authorized to investigate and mediate, it does not possess powers of compulsory arbitration.

### 8. Intervention of Federal Government in Coal-mining Disputes.—

The anthracite strike of 1902 marked a turning point in the history of the Federal government's attempts to adjust industrial disputes. Thus far it had confined its activities chiefly to strikes among railroad employees, where it had justified its activities principally under the interstate commerce powers of the Federal government. However, the entire country suffered so severely from this strike of the anthracite miners of Pennsylvania that it came to be felt that the mines, as well as the railroads, were essential industries in which the public was vitally concerned.

In order to prevent a serious fuel shortage during the approaching winter, President Roosevelt finally threw aside precedent. He appointed, on his own initiative and without any special legal authority, the famous Anthracite Coal Commission of 1902. Both sides agreed to accept the verdict of the arbitrators and the miners went back to work. A great wave of popular approval showed that the time was ripe for decisive action of some sort in a national industrial crisis.

The Anthracite Coal Commission recommended in its final award that the President and the governors of the various states be given the power to appoint committees of compulsory investigation whenever industrial disputes of sufficient importance arose. A new function of government had developed, *viz.*, the promotion of better labor relations. Again, the arm of the Federal government had been extended from interstate commerce to other important national industries.

Strikes in the coal-mining industry have been chronic; and on several subsequent occasions Federal commissions have been appointed. Thus the bituminous-coal strike of 1919 was settled by the appointment of a commission of three members, one representing the miners, one the operators, and one the general public. The majority report, which was accepted by both sides, provided for a 27 per cent increase in wages and for the continuance of the eight-hour day. In June, 1920 a similar commission was appointed by President Wilson to arbitrate an anthracite dispute.

**9. Federal Commission on Industrial Relations.**—The Federal Commission on Industrial Relations was appointed under an act of 1912. Its purpose was to investigate the causes of industrial unrest in the United States. This commission was composed of nine persons, three representing employers, three representing organized labor, and three representing the general public. A corps of experts were to investigate conditions in various industries and in various parts of the country. Their report, made in 1916, stressed the importance of industrial peace *by means of trade agreements and by governmental machinery for mediation and voluntary arbitration. Compulsory arbitration was not recommended as a general principle. Numerous other findings*



and recommendations of the Commission on Industrial Relations have already been mentioned in other connections.

**10. Establishment of Federal Department of Labor.**—In 1913, the former Department of Commerce and Labor was split into its two component parts, from one of which the new Department of Labor emerged. This act of 1913 specified that the functions of the Department of Labor should include the adjustment of industrial disputes as well as the collection of information concerning labor conditions. Consequently, there was organized a Bureau of Conciliation which was to concern itself with industrial disputes in occupations other than those of interstate commerce. Although compulsory arbitration is absent, its work of mediation has been fairly successful.

The U. S. Department of Labor includes also the fact-finding Bureau of Labor Statistics, which has made a number of valuable special studies and which issues regularly indices of wages, prices, and costs of living. It publishes the *Monthly Labor Review* which should be consulted regularly by all students of labor problems.

**11. National Industrial Conferences during the World War.**—The period of the World War was one of strikes and great industrial unrest. As it was especially necessary then that the wheels of industry be kept in constant progress, numerous emergency bodies were created for the purpose of avoiding or settling industrial disputes. In the fall of 1917, for illustration, President Wilson appointed the President's Mediation Commission to investigate the industrial disturbances in the West. As the war progressed, it became increasingly necessary to direct carefully the course of production and to conserve the labor resources of the country. The closer cooperation of labor and capital was essential for the successful prosecution of the war.

A War Labor Conference Board was appointed which had its first sitting in February, 1918. It consisted of five members representing the general public. This body was continued in the National War Labor Board which remained in existence until after the signing of the armistice. In order to prevent strikes, the National War Labor Board agreed to nearly all the essential demands laid down by organized labor except the closed shop.

In October, 1919, President Wilson called a National Industrial Conference which continued the familiar tripart form. The war was now over and a steel strike was in progress. Cleavage along economic lines soon developed which finally resulted in an open break. The conference was ended abruptly by the withdrawal of the labor members after they had failed to get the inclusion of union representatives, or "walking delegates," written into a definition of collective bargaining which all the delegates had readily endorsed in principle.

President Wilson then called a Second Industrial Conference shortly afterward, but it was not organized along tripart lines. This conference was composed of seventeen citizens from various walks of life. Most sessions were not public. Secretary of Labor Wilson was chairman and Herbert Hoover the vice chairman. The conference made no attempt to analyze causes of industrial unrest, as did the former Commission on Industrial Relations, but confined its attention to machinery for settling strikes. It stressed mediation and voluntary arbitration, relying on the weapon of public opinion for their effectiveness.

The real contribution of the Second Industrial Conference was a plan for a National Industrial Board and for local boards of inquiry and adjustment. There were to be regional adjustment conferences, consisting of a chairman and eight members, four representing employers and four representing employees. In the case of public utilities, there were to be two representatives of the government. If the regional board did not agree unanimously, the matter might go to the National Industrial Board or to an umpire for arbitration. A regional board of inquiry was to consist of two employers in the industry involved and two employees of the craft involved, provided that none of the four was a participant in the particular industrial dispute.

In case of a refusal to submit to mediation on the part of the regional board of adjustment, the regional board of inquiry had powers of investigation and of publicity. Where there was agreement for mediation, two representatives from the employers involved and two representatives from the employees involved in the controversy were to be added to the regional board of inquiry, which thus became a regional board of adjustment.

The National Industrial Board with headquarters in Washington was to supervise and administer the plan. It should consist of nine members appointed by the President with the approval of the Senate. Three members were to be chosen from among employers, three from organized labor, and three to represent the general public.

This plan of the Second Industrial Conference of President Wilson opened possibilities for the adjustment of industrial disputes in fields other than interstate commerce. It did not propose compulsory arbitration, but rather mediation and voluntary arbitration. The participation of the government was reduced to a minimum. It relied on the weapon of publicity and imposed no penalty other than that of public censure. The plan had great flexibility of administrative machinery. Its primary aim was to help the disputants settle their own differences, rather than to impose a judicial decision upon them. The plan copied many features of the famous Whitley industrial councils of England. Unfortunately, it was little used in the United States during the following decade.

**12. National Labor Boards in Reconstruction Program.**—The improved status and increased strength of collective bargaining under the Norris-LaGuardia Act of 1932 and the National Industrial Recovery Act of 1933 were followed, as was shown in the last chapter, by an increased number of labor disturbances. Many of these were due to conflicting interpretations of the new laws and to controversial practices followed under them. Charges of evasion and coercion were met by countercharges of labor dictatorship. Rival labor organizations claimed to be truly representative and to possess power to negotiate and to make binding agreements. In order to make rulings on moot points, to supervise elections, to facilitate negotiations, and to promote conciliation, it was necessary for the Federal government frequently to intervene in industrial relations during this period of reconstruction, as it had during the previous war-time emergency.

Problems of organized labor and industrial relations at first came directly under the National Recovery Administration, but the gigantic size of this task, to say nothing of the formulation and enforcement of individual codes, made necessary not only the transfer of labor relation functions to a specialized body, but also decentralization through local and regional boards.

The President of the United States was empowered, under the National Industrial Recovery Act of 1933, to investigate and to mediate labor controversies throughout the United States. In accordance therewith a National Labor Board, somewhat similar to President Wilson's war-time labor boards, was created by President Roosevelt in August, 1933. In accordance with a joint resolution of Congress in 1934 and a subsequent executive order of the President, it was superseded in July, 1934, by the National Labor Relations Board.

The National Labor Relations Board was to continue during the remainder of the statutory life of the National Industrial Recovery Act. It was an impartial body consisting of three full-time salaried members who were to work in cooperation with the Department of Labor, but not subject to its jurisdiction. It was empowered to supervise the work of local and regional labor relations boards, then in existence or to be newly created. This board was empowered to investigate controversies arising under the famous Sec. 7(a) of the National Industrial Recovery Act, to order and conduct elections, to investigate alleged violations and discriminations and, "upon the request of the parties to a labor dispute, to act as a Board of Voluntary Arbitration or to select a person or agency for voluntary arbitration."

**13. State Boards of Mediation and Voluntary Arbitration.**—The first state law providing for conciliation or arbitration in the case of industrial disputes was that of Maryland in 1878. Since that time the majority of individual states have passed laws for the same general purpose.

This legislation may be classified according to the type of administrative machinery provided. Thus there are local, district, and state bodies; temporary and permanent boards; commissions and commissioners; and, finally, public officials and citizens drawn from private life.

A report of the Bureau of Labor classifies this state machinery for mediation and voluntary arbitration into four general groups, as follows: (1) temporary boards of local character; (2) permanent local bodies established by private parties; (3) state commissioners of labor who are authorized to interfere in industrial disputes in addition to other duties; and (4) special state boards or commissions. The first system, which is historically the oldest, has been of little value. Experience has shown that the second type is little better. Sporadic success has attended the third method.

Of recent years, most states have adopted the fourth general type, for they have created permanent state boards for intervention in industrial disputes. Massachusetts and New York were among the first states to introduce this system and its operation has been fairly successful. There are usually three members of the state boards of arbitration and conciliation who are generally appointed by the governor with the approval of the upper house.

Mediation and voluntary arbitration without coercion are the usual methods employed in settling industrial disputes. After arbitration has been agreed to by both parties to the dispute, the acceptance of the award is compulsory under the laws of some states but optional in others. In about a score of states, voluntary agreement to arbitrate must be accompanied by postponement of the right to a strike or lockout during the government investigation. Investigation may be compulsory or left to the discretion of the commissioners. Considerable public education is still necessary to induce the parties to local industrial disputes to bring their grievances before these state boards of arbitration and conciliation, rather than to fight them out by means of strikes and lockouts.

**14. Compulsory Arbitration in Australasia.**—Although the Federal government of the United States and most individual states have sought to promote industrial peace by means of mediation and voluntary arbitration, the experiment of compulsory arbitration was tried in Kansas. New Zealand, however, was the real pioneer in this field, for a law was passed there as early as 1894 which made strikes and lockouts misdemeanors.

Compulsory arbitration in New Zealand did not supplant, but merely supplemented, conciliation. The system of administration was built up around what were known as "industrial unions." Any fifteen or more employees, any three or more individual employers, or any incorporated company might constitute such an organization. Existing trade unions were frankly recognized as parts of the system.

State officials known as "commissioners of conciliation" sought to mediate in industrial disputes. Where the efforts of the commissioner were futile, he organized a council of conciliation by asking each side to appoint the same number of assessors to serve with him on this board. This council suggested compromises and attempted to adjust differences.

In case of failure to reach an acceptable solution, an appeal was made to the Court of Arbitration which was an important governmental tribunal. Its presiding officer was a judge of the Supreme Court, and the governor appointed one member to represent the employers and one to represent the employees. These two appointees were selected from the industrial unions of employers and of organized labor. This court of three members had full powers of investigation, and there was no appeal from its decision. The time limit of the award, always carefully specified, was generally three years. This award might also be applied to all similar workers in a given industry and in a given locality. Strikes or lockouts for the purpose of changing the conditions specified in the judicial award were illegal, and they were punishable by heavy fines.

Although compulsory arbitration in New Zealand applied only to registered unions and registered associations of employers, it was almost universal. Moreover, it was so successful during the first decade of its history that the country was sometimes referred to as "the land without strikes." During this period of prosperity and rising prices, most of the awards of the court were favorable to labor, in that they granted higher wages to keep pace with rising costs of living. But during the period of depression and falling prices in 1907, court awards were less favorable to labor and hence compulsory arbitration was viewed less favorably in a country where the hold of trade unionism was very strong. In spite of the statute providing for compulsory arbitration, a number of illegal strikes took place. Amendments were passed in 1908 and 1914 providing for the attachment of wages, as well as the imposition of fines on registered unions involved in illegal strikes. This necessary action was even more unpopular. Finally, in 1932, an amendment was passed which removed many of the compulsory features of the original act. Except for industries affected with a public interest, where sufficient notice is not given in advance, strikes are now again legal in New Zealand; this country has practically abandoned compulsory arbitration and returned to voluntary arbitration and mediation.

The New Zealand experiment in compulsory arbitration has been imitated in New South Wales and other states of Australia. In 1904, a Federal compulsory arbitration law was passed for the entire commonwealth of Australia. Meanwhile, Victoria and Tasmania had accepted the system of compulsory wage boards. Although not doing away with the right to strike, the system of compulsory wage boards afforded a ready substitute for them.

**15. Compulsory Arbitration in Kansas.**—In 1920, the state of Kansas introduced compulsory arbitration in certain industrial disputes. In New Zealand, strikes were illegal for registered unions, but, in Kansas, they were illegal for vital industries which seriously affected the public interest. The scope of compulsory arbitration was somewhat differently determined. The Kansas law forbade strikes in public utilities and industries producing such necessities as fuel, clothing, and food. Indeed, this drastic piece of legislation grew out of a serious coal strike.

The Kansas Court of Industrial Relations consisted of three judges appointed by the governor on the approval of the state senate. This body for industrial arbitration was unique, in that it contained representatives from neither employers nor employees. The familiar tripart composition was entirely absent, for the court was non-partisan. On the other hand, the knowledge and experience of practical employers and labor leaders were lacking. In spite of its judicial character, the functions of the Industrial Relations Court were largely administrative. It was given the powers which previously had been held by the Public Utilities Commission and, later, those of the Industrial Welfare Commission and the Department of Labor.

In cases of industrial disputes, the Kansas court might investigate on its own initiative or on a request from either party or from a group of citizens. As a result of its findings, it might issue an order as to hours, wages, or general working conditions. The court was empowered to operate an industry during a labor crisis if conditions seemed to warrant this measure. For a defiance of its orders, the court could bring suit in the Supreme Court of Kansas. Fines and imprisonment might be imposed. Indeed, several mine leaders were sentenced under this act, later declared unconstitutional and subsequently abolished.

Although the right of labor to organize and to bargain collectively was not denied, the law prohibited strikes, lockouts, picketing, boycotts, and other weapons of industrial conflict in essential industries. Although individuals might quit work themselves, they might not organize and induce other workers to do this collectively. Thus a union official was punished for contempt of court for disobeying an order not to call a strike after an injunction to that effect had been issued by a Kansas court. This verdict was sustained in 1922 by the Supreme Court of the United States.<sup>1</sup>

The Kansas Court of Industrial Relations attracted tremendous attention throughout the United States as the first American experiment in compulsory arbitration. Organized labor consistently and insistently opposed the project. Within the state of Kansas, the Industrial Relations Court became a political issue in the autumn elections of 1922. The Democratic party, which represented the opposition, was victorious

<sup>1</sup> *Howatt vs. Kansas*, 258 U. S. 181, 42 Supreme Court 277, 1922.

at the polls. As soon as it came into control, it began to strip the court of its powers.

In 1923, and again in 1925, the Supreme Court<sup>1</sup> of the United States declared unconstitutional an attempt of the Court of Industrial Relations to fix wages and conditions of employment in the meat-packing industry. However, such regulation was regarded as essential to compulsory arbitration. But the packing industry was not viewed by the Supreme Court of the United States as so vital to public welfare that collective agreement to strike therein was regarded as a crime. It was held that the police power of the state could not be invoked to support compulsory arbitration in those industries in defiance of the Fourteenth Amendment. Although the constitutionality of compulsory arbitration was not denied in public utilities, the general application of that principle was regarded as a violation of individual freedom of contract.

The Kansas Court of Industrial Relations, the first American experiment in compulsory arbitration, was abolished in 1925. Its duties and powers were transferred to a public-service commission which continues to function with limited powers over labor disputes, but only within public utilities. Its chief powers now are the usual ones of investigation and publicity. Compulsory arbitration within the United States was as brief as it was local.

**16. Compulsory Investigation in Canada.**—Although the compulsory arbitration of industrial disputes has not made much headway in America, both Canada and the United States have adopted certain other coercive features. These involve (1) the compulsory investigation of labor disputes; (2) the enforcement of awards which have been accepted by both parties to voluntary arbitration; and (3) the prohibition of sudden changes in terms of employment and the prohibition of sudden strikes or lockouts.

The Canadian Industrial Disputes Act of 1907 made strikes and lockouts unlawful until after the causes of these disputes had been investigated by a governmental body appointed for that purpose and until after publicity had been given to the results of its investigation. Moreover, thirty days' notice in advance was required for any change or organized demand for a change in wages or hours of work. The law was applicable to public utilities and mines. It has been far more successful in the former industries than in the latter.

By such an enforced delay, an opportunity was given to either party to apply to the Department of Labor for a board of conciliation and investigation, a tripart body composed of three members. Strikes and lockouts were forbidden prior to the publication of the findings of this

<sup>1</sup> *Wolff vs. Court of Industrial Relations*, 262 U. S. 522, 1923.

*Wolff vs. Court of Industrial Relations*, 267 U. S. 552, 1925.

body, and penalties were imposed for violations of this industrial armistice. The postponement of the opening of industrial conflicts gave an opportunity for both mediation and investigation. The aim of this Canadian legislation was to prevent strikes, rather than to settle them. Unlike compulsory arbitration, this law did not make illegal these weapons of collective bargaining but merely postponed their use.

In 1923, this Canadian law was attacked in the courts as unconstitutional. It was finally brought before the Privy Council of the Empire. In 1925, Chancellor Haldane held it to be an unconstitutional violation of the British North American Act of 1867 under which Canada is governed. Consequently, the original law of 1907 was amended. Its provisions now apply only to interprovincial commerce. Although the amended law is constitutional, it is necessarily limited in scope. However, this legislation proved so popular in Canada that a number of individual provinces sought similar legislation for basic industries under their own jurisdiction.

**17. Compulsory Investigation in United States.**—The Colorado Industrial Commission Act of 1915 was similar to the Canadian Industrial Disputes Act of 1907. It provided for compulsory investigation and made strikes and lockouts illegal in the interim. The Industrial Commission had the power of making an award, but its acceptance was not compulsory. Thirty days' notice had to be given before employers could make changes in conditions of employment, or before the workers could call a strike. This act was applicable to all large industries. Agriculture, domestic service, and very small establishments employing less than four workers were exempt.

The laws of numerous American states provide for compulsory investigation of labor disputes by their governments, but without compulsory postponement of strikes, lockouts, and sudden changes in conditions of employment. It may be contended that such legislation provides merely for mediation by the government, but in reality it does even more. The fact that the state board of investigation is empowered to take testimony without the consent of either party to the labor dispute pushes the functions of government beyond those of mediation and into those of compulsory investigation.

**18. Coercive Measures in Great Britain and Germany.**—Great Britain and other European countries have provided legislation for the compulsory investigation of labor disputes, in addition to the establishment of governmental agencies for conciliation and mediation during strikes and lockouts. It is generally required that the findings of such an impartial commission be published, in order that the weapon of public opinion be brought to bear on the more culpable or recalcitrant party to the industrial dispute. But, in general, there is not involved the temporary suspension of the right to strike, or the requirement of a



preliminary announcement of essential changes in working conditions. In these respects, the Canadian Industrial Disputes Act was unique.

Germany has been rather successful in preventing strikes and other industrial disturbances through mediation, conciliation, arbitration, and compulsory investigation. By a decree of 1923, Germany was divided into a number of districts, each of which had its chairman of an arbitration board appointed by the state. If the arbitrator failed to secure agreement in a labor dispute after bringing the parties together, he was to set up an arbitration board composed of himself, as chairman, and two members from the parties to the quarrel. Although an award by this board was not legally binding, the Reich Minister of Labor had the right to declare it so, if, in his opinion, "the settlement appears just and reasonable with due consideration for the interests of both parties, and if its application is desirable for economic and social reasons."

**19. Settlement of Industrial Disputes within Industry.**—The settlement of industrial disputes within industry is even more important, satisfactory, and permanent than their settlement from without industry by the state. The development of governmental machinery for the adjustment of labor disputes has been paralleled by the organization of similar institutions on the part of organized labor and associations of employers.

Although the states and the Federal government have been acquiring a new function, *viz.*, the development of better industrial relations, even more significant has been the gradual evolution of parliamentary, judicial, and diplomatic machinery for the functioning of collective bargaining between employees and employers themselves, and for the settlement of industrial disputes within industry. Within the political state, but often apart from it, are being tried numerous experiments in industrial democracy. Trade agreements, industrial representation, and profit sharing are some of its chief manifestations.

**20. Trade Agreements.**—Trade agreements are collective bargains between representatives of organized labor and associations of employers. A mutual understanding is achieved concerning wages, hours, and conditions of employment in a particular industry; this agreement is supposed to hold good until another joint conference takes place. A trade agreement merely defines the accepted usage or conditions of employment within that industry. It is not a contract, although individuals contract for employment under the terms recorded in the trade agreement for that occupation at that time and place.

A court decision defined a trade agreement as follows.

It is merely a memorandum of the rates of pay and regulations governing, for the period designated, enginemen employed on the Chattanooga division of the company's railway. Having been signed by the appellee, it is evidence of its intention in the conduct of its business with enginemen on said division, to be

governed by the wage and rules, and for the time therein stipulated. Enginemen in or entering its service during the time limit contract with reference to it.

There is on its face no consideration for its execution. It is therefore not a contract. It is not an offer, for none of its terms can be construed as a proposal. It comes squarely within the definition of usage.<sup>1</sup>

The term "usage" is a legal concept, which has been defined as follows by another court decision:

An established method of dealing, adapted in a particular place or by those engaged in a particular vocation or trade, which acquires legal force, because people make contracts with reference to it.<sup>2</sup>

Trade agreements are collective bargains between representatives of organized labor and associations of employers. A compact is made concerning wages, hours, and conditions of employment in a particular industry, which is to hold good until another joint conference takes place. Trade agreements are practical, rather than idealistic. They do not represent attempts to harmonize the general interests of labor and capital but endeavor frankly to face existing differences in a given industry.

The absence of representatives of the public is feared by some students of the problem. No representatives of the consumers are present to oppose an agreement for higher wages and for necessarily higher prices of the commodity produced. Trade agreements may promote harmony within an industry, but the public is often forced to pay the bill.

The usual parliamentary filibustering, higgling, and political chicanery are present on both sides during the making of trade agreements. After both labor and capital have been forced to show their hands and to play their trump cards, a heated discussion takes place. Either of two things results. A compromise, which is largely determined by existing economic conditions, is effected or a declaration of war is made. Loss of profits, on the one side, and loss of wages, on the other, are the sinister shadows which hover over the discussion. In order to prevent industrial warfare, each side generally yields on certain points, hoping that conditions will be more favorable in the next conference. The general public watches from a distance this economic volcano which is not extinct but merely temporarily quiet.

The trade agreements of the well-organized and better paid industries are fairly well kept. On the other hand, there is generally no legal weapon for their enforcement. Moreover, the repeated failures of joint conferences to make and to keep satisfactory trade agreements is interpreted by some critics as a proof of their inherent inability to function successfully as devices for securing industrial peace.

<sup>1</sup> *Hudson vs. Cincinnati N. O. and T.P.R. Co.*, 152 Ky. 711, 154 S. W.

<sup>2</sup> *Byrd vs. Beall*, 150 Ala. 122, 43 So. 749.

In order to interpret, to apply, and to maintain trade agreements, some of them are accompanied by provisions for arbitration. Such arbitration within industry itself is accomplished by judicial bodies composed of employees and employers.

**21. Illustrations of Trade Agreements.**—The union coal mines operate under the joint conference system, and their trade agreements are fairly typical. A joint conference is held from time to time and attended by several hundred delegates. The number of representatives from both sides has been reduced, and a large share of the important work is now done in committee. A unanimous vote of the conference, however, is necessary for any momentous decision. In this great industrial parliament, representatives of the miners sit on one side and representatives of the operators on the other. Although the public may attend most of the sessions, they are not permitted to have representatives on the floor. Thus a non-partisan view is rarely expressed. Again, these joint conferences often have no machinery for the arbitration of controversial points. Failure to come to some agreement means industrial warfare in the union coal fields.

The railroad brotherhoods have had somewhat similar agreements with the railroad companies, in addition to the governmental machinery for mediation and voluntary arbitration, described before. A trade agreement was provided for also in the printing industry by the formation of the International Joint Conference Council of the Allied Printing Trades. The Stove Founders' National Defense Association and the Iron Molders' Union of North America likewise entered into a trade agreement for the elimination of disastrous strikes. Annual conferences of representatives of employers and employees were held. Strikes and lockouts are forbidden in the meantime.

Trade agreements are common also in the building industries. A typical one was reached in 1921 by the Joint Conference Board of the Building Construction Employers' Association and the Building Trades Council of Chicago. A Joint Conference Board was to meet annually and to organize a Joint Arbitration Board of an equal number of representatives of employers and employees. A provision, which is rather typical of trade agreements, was that public officials and individuals not engaged in the building industry be excluded. Other unique features of this particular trade agreement were the abandonment of limitation of output, of restrictions on the use of machinery, of the prohibition of apprentices, and of other familiar weapons of organized labor. Strikes and lockouts in defiance of trade agreements were forbidden under penalty of suspension. Disputes were to be referred to the presidents of the two associations, and, if they could not settle them, to a Joint Arbitration Board.

Since 1910, trade agreements have been common in the clothing industry. These are significant, first, as determining certain fundamental standards of labor throughout the needle industries, and, second, as devices for the adjustment of industrial disputes. The parties to the agreement ratified the preferential union shop, *i.e.*, one which maintained union conditions and which employed union workers in preference to non-union workers. The forty-four-hour week was accepted, overtime restricted and to be paid for at preferential rates, and home work was proscribed. An attempt was made to minimize the seasonal aspect of the clothing industry by spreading the work throughout the entire year. Contractors were to be registered and held responsible for conditions within their shops. In order to eliminate unsanitary surroundings and sweatshop conditions within New York City, there was organized a Joint Board of Sanitary Control.

**22. Adjudication of Individual Grievances within an Industry.**—The clothing firm of Hart, Schaffner and Marx, Chicago, was a pioneer in the promotion of better industrial relations. A department of labor was organized which took from the foremen their right of arbitrary discharge. Trade agreements were ratified with the United Garment Workers, and later with the Amalgamated Clothing Workers. These provided for the existence of a Trade Board and a Board of Arbitration.

When a grievance arose on the floor of the shop, it was reported first by the complainant to the union representative within the shop. The latter took up the matter with the shop superintendent if he felt the cause to be just. If these two individuals were not able to settle the difficulty, it was referred to the deputy. Deputies were representatives, of both employers and employees, who were chosen for the purpose of enforcing the terms of the trade agreements. A pair of deputies made an investigation and attempted settlement. If this was impossible, or the principle at issue was very important, the matter was referred to the Trade Board.

The Trade Board consisted of eleven members, all of whom, except the chairman, were employed by the Hart, Schaffner and Marx Company. Five were selected by the company and five by the union, but the chairman was chosen by the Board of Arbitration. The latter consisted of three members, one chosen by each side and the third member by the common agreement of the other two. The Trade Board was the primary body and essentially a fact-finding jury. If a principle was involved which necessitated an interpretation of the existing trade agreement, an appeal might be made to the Board of Arbitration whose decision was final.

This happy story of improved labor conditions and better industrial relations within the clothing industry had a tragic ending. The clothing firm of Hart, Schaffner and Marx found its costs of production greatly

increased in a highly competitive market, demoralized by sweat shops, and menaced by submarginal clothing manufacturers. Hence, it was unable to dispose of its product in sufficient volume and at high enough prices to cover its increased costs of production. The clothing firm of Hart, Schaffner and Marx continued its gallant battle but it was finally forced into bankruptcy. This unfortunate ending brings out an important economic moral, *viz.*, that under our competitive system, socially minded management must be able to dispose of its product at a price sufficient to cover costs of production and to make a profit. Otherwise, it cannot remain in business.

**23. Summary.**—The economic and social costs of industrial conflicts are so tremendous that the prevention and settlement of strikes are receiving great attention. Industrial cooperation must succeed industrial warfare. Industrial disputes may be adjusted by industry itself or under pressure from the general public, by voluntary or coercive measures, and either with or without the intervention of the government.

Various methods of governmental action are mediation or conciliation, compulsory investigation, and voluntary or compulsory arbitration. Mediation is diplomatic, for its aim is to help the disputants settle their own difficulties. Arbitration is judicial, for an award must be made by the board of arbitration. The acceptance of arbitration may be voluntary or compulsory, and the acceptance of the award may be voluntary or compulsory. Compulsory arbitration with a voluntary acceptance of the award means merely compulsory investigation.

The frequent failures of mediation and conciliation to prevent strikes and the suffering which they inflict on the general public have led to the advocacy of coercive measures. Compulsory investigation represents an impartial study of the causes of industrial unrest and a dissemination of these findings. An appeal is made to the weapon of public opinion.

Compulsory arbitration would go even further, for it would make binding the award of the commission. However, it involves the existence of certain standards of justice in the matter of wages, hours of labor, and general working conditions, as well as wage boards for their codification and interpretation. Organized labor has opposed compulsory arbitration because of its denial of the right to strike and other weapons of collective bargaining.

In New Zealand and Australia, compulsory arbitration and wage boards functioned successfully for a number of years. The experiment of compulsory arbitration was tried also in Kansas, but it was soon declared unconstitutional as a general principle.

Compulsory investigation may or may not involve the postponement of the right to strike. This provision was embodied in the laws of Canada and Colorado, but this feature is absent from compulsory investigation in Great Britain and most American states.

Joint industrial councils are meetings of representatives of employers and of organized labor for the formulation of trade agreements. They define the accepted conditions of labor in a particular industry for a specified time. Trade agreements are not contracts, although individuals may contract with reference to them. The trade agreements in certain industries, as, for illustration, in the needle industries, not only define the general standards which are to prevail but also contain provisions for the arbitration of industrial disputes and for the adjustment of individual grievances.

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### Questions for Discussion

1. Differentiate between mediation and arbitration.
2. Contrast the relative advantages and the disadvantages of mediation and voluntary arbitration.
3. Show the objectives and limitations of compulsory investigation.
4. Explain the methods used in Canada and Colorado.
5. Justify or criticize compulsory arbitration.
6. Outline briefly the methods used in Kansas and New Zealand.
7. Trace the evolution of mediation and voluntary arbitration on the part of the Federal government in interstate commerce.
8. What are some of the distinctive features of trade agreements?
9. Illustrate from the clothing or coal-mining industries.

### Topics for Investigation

1. The strike of 1902 and the Anthracite Coal Commission.
2. The functioning of the Railroad Labor Board.
3. Governmental machinery for better industrial relations in your own state.

4. The promotion of industrial peace during the war.
5. President Wilson's First and Second Industrial Conferences.
6. Compulsory arbitration in Australasia.
7. Kansas Court of Industrial Relations.
8. Compulsory investigation in Canada and Colorado.
9. Compulsory arbitration and organized labor.
10. Trade agreements in the coal mines.
11. Prevention and settlement of industrial disputes in the clothing industries.



**PART FIVE**  
**THE APPROACH OF THE EMPLOYER**

Chapter XVII. Scientific Management and Personnel Administration,  
*Industrial Efficiency and Human Welfare.*

Chapter XVIII. Employee Representation and Profit Sharing, *Industrial  
Democracy and the Copartnership of Labor.*



## CHAPTER XVII

### SCIENTIFIC MANAGEMENT AND PERSONNEL ADMINISTRATION

#### INDUSTRIAL EFFICIENCY AND HUMAN WELFARE

**1. Nature of Scientific Management.**—Scientific management is an attempt to apply the scientific method to industry. It has sometimes been interpreted as a second phase of the industrial revolution. "It represents a further advance in technology, *i.e.*, in the application of science to the problems of economic production.

Scientific management seeks to discover by the process of experimentation what method of doing a particular piece of work is most efficient, *i.e.*, which yields the maximum of production with the minimum of effort, after which industrial processes or business organization are standardized in accordance with approved technique. Scientific management tests the results of traditional methods and discards guesswork and "rule of thumb."

**2. Pioneer Time and Motion Studies.**—The great pioneer in scientific management was Frederick Taylor, who may justly be given the title of the first efficiency engineer. He became interested in the subject because of his belief in the universal tendency of workmen under modern conditions to shirk or "to soldier on the job." Taylor ascribed this tendency to ignorance on the part of both employers and employees as to what constituted a fair day's work. He sought to determine this standard in concrete cases by the process of scientific experimentation.

In order to secure a fair day's work with maximum production, it was found necessary to study, to improve, and to standardize industrial processes. It was no longer possible to leave to the workman the details of how he should work. Taylor's famous time and motion studies led him to the conclusion that many laboring operations were far from efficient.

Scientific management discovered that the laying of bricks, for illustration, was not done in the most efficient manner. The various motions of bricklaying were, therefore, carefully studied and standardized into what seemed the most efficient manner. The skilled bricklayer was relieved of certain tasks which could be performed by unskilled labor. Similar time and motion studies revealed that workmen were shoveling in a haphazard fashion. Consequently, standard-size shovels were insisted upon for different types of work.

**3. Essentials of Scientific Management.**—Scientific management requires constant planning, for it is necessary to schedule carefully the work of every laborer and every machine. One of its cardinal principles is the transfer of function, direction, and method from workers to management. It separates routine work from exceptional work. The latter is the function of management or of specially trained workers whose time should not be spent on mere routine matters which require little skill or judgment. This great increase in the functions of management requires especially prepared assistants or "functional foremen."

Scientific management requires also a carefully planned layout of plant to facilitate a smooth, continuous, and rapid flow of work. It involves the introduction of improved machinery and the use of only those industrial processes which have proved to be most efficient. Scientific management requires also the keeping of careful records, the results of which should first be analyzed and then be utilized. Thus modern cost accounting is necessary to the scientific management of industry.

After improving the general conditions of work and raising labor to a high point of efficiency, a standard day's work is generally decided on for a given operation. A scaled bonus above the current wage rate may be given to a worker who finishes a given task in less than the allotted time.

Taylor enumerated four underlying principles of management: (1) development of a true science of industry, (2) careful selection of workmen, (3) their further education and development, and (4) intimate friendly cooperation between management and men.<sup>1</sup>

Although Taylor was the father of scientific management, his writings do justice neither to himself nor to this important movement. A modern student has restated in the following brief form the essential principles of scientific management as enumerated by Taylor.

A. The improvement and standardization of the productive organization and of the material equipment of the plant. This involves the rearrangement of the plant equipment to secure the quickest routing; the reorganization of the managerial force on the basis of the division of function; the use of cost accounting; the improvement of storekeeping methods and the adoption of economic systems for classifying implements and manufactured products; the development of measuring devices such as the slide rule and various other improvements over existing practice.

B. The improvement and standardization, for each job, of the acts or movements of workmen. Under the systems of management commonly in vogue, the management does not and cannot know that great mass of traditional and habitual rule-of-thumb knowledge which workers use; it can, therefore, give them little help or advice and must leave them to carry out each task as they see fit. But "among the various implements and methods used" there is always one

<sup>1</sup> TAYLOR, F. W., "Principles of Scientific Management," p. 69.

method and one implement which is quicker and better than the rest; and this one best method and best implement can be discovered and developed only through scientific study and analysis of all the methods and implements in use, together with accurate, minute, time and motion studies.

C. The standard task, based on an elementary time study and assigned by the planning department. The first uses of time study are in the elimination of unnecessary motions, the standardization of the operation, and the assignment to unskilled laborers, when possible, of routine operations not requiring skill. After the improvement of methods the movements are, if it seems necessary, timed again. The planning department then fixes a standard time—a “task”—for each operation, based on observation of the minimum, average, and longest times required for the operation. Then an instruction card is made out, informing workmen what motions to perform and what standard task has been set up.

D. Functional foremanship in which the single supervisor is replaced by a number—ideally seven—of specialized teacher-supervisors (inspector, gang-boss, speed-boss, repair-boss, time clerk, routing clerk, and disciplinarian) and the management substitutes friendly cooperation with the workers for the suspicious driving of the system inherited from the entrepreneur industrial organization.

E. The differential wage—a “bonus” or higher piece rate—is given to the worker who makes or exceeds the set task.<sup>1</sup>

**4. Possibilities of Scientific Management.**—The advantages of scientific management, like those of machinery, should accrue to the employer, to the employee, and to society in general. Technological progress represents superior economic adaptation, and increased production means increased real wealth. Hence scientific management should result in higher standards of living for all, unless its gains are very unequally distributed. Its benefits to labor should be reflected in shorter hours, higher wages, and lower prices.

Taylor claimed such results for his early experiments in scientific management. He wrote as follows:

At least 50,000 workmen in the United States are now (1911) employed under this system; and they are now receiving from 30 to 100 per cent higher wages daily than are paid men of similar caliber with whom they are surrounded, while the companies employing them are more prosperous than ever before. In these companies the output, per man and per machine, has, on the average, been doubled. During all these years there has never been a strike among the men working under this system. In place of suspicious watchfulness and the more or less open warfare which characterizes the ordinary types of management, there is universal friendly cooperation between the men and management.<sup>2</sup>

Numerous illustrations could be cited to show how the introduction of scientific management resulted in greatly increased production and higher wages. One of Taylor's followers, for illustration, made astonishing progress in the simple and repetitive occupation of bricklaying.

<sup>1</sup> TUGWELL, R. G., “Industry's Coming of Age,” pp. 31 and 32.

<sup>2</sup> TAYLOR, F. W., “Principles of Scientific Management,” p. 28.

After training workers in the new methods, an average of 350 bricks per man per hour, as compared with the former average 120 bricks, was achieved.

Professor Irving Fisher summarized the case for scientific management as follows:

As an economist I would stress particularly the value of scientific management to labor—when as a matter of course, scientific management is as universal as the telephone or newspaper—I have little doubt that the welfare of labor will be double; in short that real wages will be twice as high as at present. In the end, labor gains the most from so-called “labor saving devices.” Increased production means simply increased income to society, and the wage earner as a class usually profits the most in the end.<sup>1</sup>

**5. Labor's Opposition to Scientific Management.**—The industrial revolution was a painful period of continuous adjustment, but its long-run effects have been beneficial to most workers. However, the introduction of power machinery was bitterly opposed by the craftsmen whom it supplanted. Labor has likewise opposed scientific management. Only in rare cases has the worker been able to visualize its long-run advantages to himself as a member of society. Nevertheless, scientific methods will no doubt replace haphazard routine in industry, just as power machinery has supplanted the hand tool.

Scientific management has two objectives. The first consists of the systematization of industry by the introduction of improved and standardized methods of production. It separates managerial functions from laboring operations, hand work from brain work, and skilled labor from unskilled. The second objective is psychological rather than technological, for it consists of devices designed to stimulate the worker to increased production. The second objective of scientific management is difficult to separate from the first, but it is the chief source of opposition on the part of labor.

Efficiency has been defined as maximum output with minimum effort. Scientific management has stressed the first factor but often ignored the latter. However, workers resent being treated as automatons, and they rebel against being driven to the limits of their physical and mental capacity. Maximum production from a machine is a different problem from maximum production from a human being. The latter, unlike the former, suffers from psychological inertia and physiological fatigue.

Although the chief objection of the worker to scientific management lies in his contention that it is merely a ruse of the employer to speed up his employees to their utmost exertion, he is frequently obsessed also with the familiar lump-of-labor fallacy and fears that scientific manage-

<sup>1</sup> In an address delivered Dec. 4, 1924, before the Taylor Society.

ment will rapidly lessen the total volume of work to be done and hence contribute to general unemployment!

'Organized labor also regards scientific management as a subtle attempt of employers to weaken labor organizations. Again, its primary aim—increased production—is the very opposite of the union's policy of limitation of output.' However, both these opposing objectives of management and organized labor raise the question as to whether a fair day's work is the same for all workers, whether it is determined by either the trade union or the efficiency engineer. 'Human differences are such that any leveling-up or leveling-down process may work hardship and injustice.'

'Some spokesmen of organized labor further contend that scientific management tends to reduce the mass of workers to the ranks of the semi-skilled, who take orders from functional specialists. Indeed, this new functional arrangement may be just as autocratic as the former "military" organization of industry. Scientific management is viewed as undemocratic also because of the temptation to fit men to their jobs, rather than to place men in jobs for which they are best fitted by nature and previous training.'

'In the last place, the complex character of modern industry makes it difficult for a worker to see the direct benefits to himself of improved methods in industry. He contends that, in the division of the gains of scientific management, the employer has received the lion's share. He fails to visualize the general diffusion of its indirect benefits in the form of lowered prices for many commodities which he himself purchases. The worker can see only that under scientific management he suffers increased mental and physical strain without compensating gain in the form of a shorter working day. Slightly higher wages are little compensation for a shortening of his working life and an early dismissal to the scrap heap of industry.

Taylor feared the result of a sudden increase of wages. His experiments proved to his own satisfaction that an increase in wages up to 60 per cent was beneficial, but increases beyond that point were conducive to shiftlessness, extravagance, and dissipation on the part of the workers. Organized labor has resented this statement and has further contended that, in the distribution of the gains of scientific management, the worker has rarely had an opportunity to test the effects of any great or sudden increase in wages.

Labor's opposition to scientific management has been stated as follows:

'The model workman, from the standpoint of the typical efficiency engineer, is the vigorous man who freely expends all of his surplus energy during the working hours and who utilizes his non-working hours only for recuperation and preparation for another day's work. It is not the purpose of efficiency engineering to

allow the worker to depart from the door of the factory at night with more than a minimum of surplus energy for recreation, for family life, for civic duties, or for trade-union activities. In short, there is little in the actual program of efficiency engineering which indicates that the wage earner is to be given opportunity for individual development and the various paternalistic endeavors classified as welfare work have not been overlooked. A human machine rather than a man is the "model workman." One also finds little, or more accurately, nothing, in Mr. Taylor's book which indicates that he appreciated or sympathized with the viewpoint of the wage earner. Even the slaveholder of ante-bellum days was interested in "welfare work." But, of course, the slaveholder was interested in the matter purely and solely for the purpose of increasing the efficiency of the slaves or of reducing the cost of production.<sup>1</sup>

This indictment of scientific management was truer a decade ago than it is today. The new, as compared with the old, scientific management represents human, as well as mechanical, engineering in industry. Constant improvements in the plant have been sought in the interests of human welfare, as well as in the interests of industrial efficiency. Moreover, these two ideals have been found to be reconcilable and closely associated, rather than conflicting and irreconcilable. Improved working conditions make for increased industrial efficiency, as well as greater social welfare. Devices to protect the workers' safety and health and to reduce the strain and annoyance of modern industry, discussed in Chaps. VIII and IX, are in no small measure the product of the efficiency engineer.

**6. Methods of Industrial Remuneration.**—Management is interested not so much in lower wages as in the reduction of wages per unit of product. It will tend to favor any system of payment which will serve as an effective stimulus to increased production and which will not be accompanied by a corresponding waste or deterioration in quality.

On the other hand, the employee is opposed to any system of wage payment which tends to reduce wages in general or wages per unit of output. Organized labor is apt to resist any system which tends toward overdriving the worker. Under the lure of higher wages for increased production, the worker is tempted to speed up or to work overtime until physical exhaustion or a permanent impairment of health results.

At the present time, the two basic systems of payment are the time and the piece wage. Other methods are modifications of these two forms of wage payment. Under the time-wage system, the basis is a unit of time, such as an hour, a day, or a week. Under the piece system, the unit of payment is a given amount of product.

Time wages are used where the measurement of output of an individual worker is difficult, as in construction work done by unskilled laborers. With time wages it is difficult for the employer to quicken

<sup>1</sup> CARLTON, F. T., "History and Problems of Organized Labor," p. 253.



the workers who tend to adjust their pace to that of the slower workers. Reliance is placed on foremen who have been termed "the first line of defense of industry." In the past, foremen have often been selected, like the slave overseers of antiquity, because of their power to drive the workers to increased productivity. Verbal abuse and the threat of prompt discharge have been used as whips on the backs of the idle, the slow, or the inefficient.

Piece work is common among the semiskilled operators of machines, where dexterity in simple operations is required, but where real skill and expert craftsmanship are not involved. With piece work rather than time work, the inspector replaces the foreman and time clerk. He passes on the quality of the product and the number of accepted pieces determines the wages paid. Piece work is less conducive to soldiering on the job than is time work. Hence employers have sought to introduce it wherever possible.

Although the individual worker may favor piece work because of the lure of high wages, organized labor has often been hostile to this system. Not only does it encourage speeding up of workers, but also it is easy of abuse. After production per worker has been increased, management has often cut the rate per piece. Either the employee must suffer a loss of wages or he must speed up to a still higher level of production. Wherever the piece rate could be fixed in a rather arbitrary manner by the employer, the greater efficiency of the workers has often been penalized by a cut in the piece rate. Bitter past experiences have made the workers suspicious that any changes in methods of computing piece rates may be devices to cut down their compensation.

The development of scientific management has been accompanied by job analyses and time and motion studies. The scientific determination of a fair day's work or a fair piece rate has made subsequent rate cutting less likely than in former years. Nevertheless, "new conditions," "unusual circumstances," and "temporary emergencies" continue to furnish excuses for rate cutting.

Piece work has been opposed for economic, as well as humanitarian, reasons. It has been charged that it sacrifices quality of product to quantity. This natural tendency is further increased by corruption of inspectors. In the manufacture of munitions for a foreign government during the World War, for illustration, it was found that a preposterously large portion of the "inspected" ordnance was worthless.

The task wage is a compromise between the time and the piece system. Wages are fixed on a time basis; but unless the worker performs a certain standard amount of work within the allotted time, he suffers a corresponding loss of wages. This system was in vogue some years ago among the Jewish clothing workers, where it contributed in part to the sweatshop evils.

Premium plans also are compromises between time and piece work, but, as contrasted to the task-wage system, premium plans are positive, rather than negative. There is an existing wage scale based on either the time or the piece system. A standard amount of output or a given period of time is agreed on as the basic unit, and any excess of production or any increase in speed beyond this previously agreed upon standard is rewarded by an addition to the regular wage.

The recent development of scientific management and personnel administration has been accompanied by the creation of a number of premium plans and bonus systems. The Halsey premium plan will serve as an illustration. Standard times are set for every job and a bonus or premium is offered to every worker who saves time on the job. But the bonus does not represent full wages for the time saved, as under straight piece rates, but only a fraction thereof, such as one-third or one-half. If the worker does not save on the standard time or fails to do the work in the allotted time, he receives merely his hourly wage. The Halsey premium wage is essentially a modified piece rate.

**7. Nature and Aims of Personnel Administration.**—Scientific management has been supplemented by personnel administration. The latter has been defined as the “direction and coordination of human relations of any organization with a view to getting the maximum production with a minimum of effort and friction, and with proper regard for the genuine well-being of the workers.”<sup>1</sup> The best technical processes and the most scientific methods in industry will not reach their full fruition if the human element is ignored. Unhealthy and discontented workers are less efficient than healthy and happy employees.

One of the chief objects of personnel work is the constant improvement of relationships between the worker and his work. The time and motion studies of early scientific management made the mistake of viewing this relationship purely as a mechanical one. Personnel administration represents human, rather than mechanical, engineering. It is an essential and supplementary part of the new scientific management of industry.

Personnel administration seeks to improve the general working conditions of a plant so that the health, comfort, and safety of its workers can be advanced. A second aim is the reduction of excessive labor turnover by a more careful selection, placement, and training of workers. A third objective of personnel administration is the reduction of friction between men and management and the promotion of better industrial relations. In the last place, personnel work often includes welfare programs among employees. It is contended that there is a vital relationship between these four aims of personnel work and that of increased production which is the prime object of scientific management.

<sup>1</sup> TEAD O., and H. C. METCALF, “Personnel Administration,” p. 2.

**8. Services of Personnel Departments.**—Personnel administration includes first the making of job analyses of various tasks within a given plant, and then the drawing up of careful specifications concerning the personal, as well as technical, qualities necessary for the successful performance of a given piece of work. With such information before him, the personnel officer can examine the specific skills and techniques, as well as the general mental, physical, and moral qualities, of each applicant, as revealed by an interview, a possible examination, and a careful scrutiny of his references. There has been too much drifting in industry and too little guidance. Such an examination seeks to eliminate unnecessary "hiring and firing" and excessive labor turnover by a more careful selection of employees. Again, it reduces dissatisfaction and industrial unrest, due to the fact that many workers are unfitted for their respective jobs.

Transfers within a plant are another important function of its personnel department. A man may be a misfit rather than a total failure. Before discharging him as incompetent, he might be tried at another kind of work within the same factory. Thus a worker comes to feel that management is interested in his individual welfare and that big business is not utterly impersonal. By such activities the personnel department can develop an industrial *esprit de corps* and a loyalty to the business organization which will show themselves in increased production and decreased waste.

The personnel department may also perform educational work in the aims and processes of industry. It may give to selected applicants a brief course of training to promote efficiency in their prospective jobs. This may help the worker to visualize the relationship of his particular task to the industry as a whole and may reduce, somewhat, the stultifying character of modern specialized and mechanized production.

Unlike the older types of scientific management, which widened the gulf between men and management, personnel administration stresses industrial morale, as well as industrial efficiency. It serves as a clearing house in which petty grievances can be discussed and eradicated.

The discharge and promotion of workers are often as arbitrary as their methods of employment. A good worker may be dismissed summarily because of some whim, prejudice, or personal grudge of his foreman. It is true that discipline must be maintained if an industry is going to function effectively. The viewpoint of the foremen and other minor executives must be considered, but their power of discharge should not be absolute.

The personnel department should supervise promotions as well as dismissals. Industrial unrest results not only from unwarranted discharges, but also from unmerited advances. The personnel department should strive to formulate standards of efficiency and to keep records of

performances of various workers within the plant. Different schemes of rating have been devised for various types of workers. Although they are easy targets for adverse criticism, such attempts seem like a step in the right direction. Imperfect methods of rating are probably better than none at all.

**9. Organization of Personnel Work.**—As conditions vary greatly in different places, no standard plan of organization can be given for personnel work. 'Moreover, the human equation is ever present. In its final analysis, the best plan of personnel administration is the one which produces the best results for a given group of individuals under a given set of conditions.' Although details of administration should be elastic, it is important that responsibility be centralized in a specially trained official or in a definitely established personnel department.

Subdivisions or committees of a personnel department depend on the extent of its work. In addition to the fundamental employment and placement work, there may be divisions on industrial relations, health, safety, welfare, and education.

'Personnel work is conditioned by a proper understanding and appreciation of all physiological, psychological, and sociological factors in industry. It requires not only special training, but also exceptional qualities of sound judgment and intelligent leadership. Failure will be the result of half-heartedness or inefficiency.'

Close contact must be maintained with both men and management, in order to get the point of view of both sides on a given matter. 'No project should be undertaken without first explaining its objects and methods to the workers. Understanding and sympathy are imperative to the success of any personnel department. A mediocre scheme which emanates from suggestions of the workers may fare better than a superior device which they regard as superimposed on them.' Committees of the workers themselves are necessary for the successful administration of such welfare programs as the personnel department may see fit to develop. Personnel work is educational as well as administrative, and care should be exercised not to expand until the ground is carefully prepared in advance.

**10. Industrial Efficiency and Education of Workers.**—Under the former handicraft system, apprentices learned their trades under the direct supervision of master workers. Thus the medieval guilds were educational, as well as economic, organizations. But the industrial revolution, involving the factory system and the substitution of power machinery for the skill of the craftsman, has entirely changed the character of industry. The modern demand for semiskilled machine operators has been so great that there is now a relative dearth of skilled labor. Moreover, modern industry presents little opportunity for the adequate and general training of most workers therein.

The personnel programs of many large business organizations have sought to meet this need for industrial training by the development of apprenticeship schools and general educational courses within the factory or mercantile establishment. "The aim is not only to promote efficiency among the great mass of employees, but also to supply educational opportunities for exceptional individuals who desire to prepare themselves for advancement."

"Vestibule schools" are maintained by some large corporations for the training of new workers in repetitive operations. Sometimes instruction is given in all the elements of a certain occupation, as well as in elementary branches of general learning. Apprenticeship training has been given in the schools of the Pennsylvania Railroad, the General Electric, and Westinghouse Electric companies, The National City Bank of New York, the John Wanamaker Store of Philadelphia, and many other organizations. Certain firms include "safety first" and hygiene in their educational programs. The presence of a large number of immigrants in industry has led to the inclusion of Americanization programs for instruction in English, civics, and American ideals.

In addition to training their wage earners, many concerns have found it desirable to provide courses for foremen and other minor executives. Their purpose is to provide instruction in plant organization and management, as well as to train for intelligent leadership in industry. Foremen have been termed "the first line of defense in industry," and they must be especially well prepared, not only for their supervisory work, but also for the promotion of better industrial relationships between men and management.

**11. Welfare Work.**—"The extension of the functions of management beyond the factory walls into the leisure time of the workers has been termed "welfare work." It has been defined by Professor Commons to include "all those services which any employer may render to his work people over and above the payment of wages."

The first stimulus to welfare work came from the employment of a large number of women and children within factories and mercantile establishments, but it later spread to other groups of workers. It is a far cry from the far-reaching welfare work of modern industrial establishments to the miserable factory conditions of a century ago. Thus the United States Steel Corporation has spent millions of dollars in recent years for the improved health and increased welfare of its numerous employees. During the past generation the concept of the functions of an employer has widened far beyond the mere matter of industrial production. "Management is now regarded as having social, as well as economic, responsibilities."

"Various welfare schemes that have been developed include housing, recreation, education, health, safety, and thrift projects. They are some-

times operated under the control of the personnel department, sometimes directly under the supervision of the employer, and sometimes administered by joint committees representing both employers and employees. They are sometimes accompanied by schemes for profit sharing and industrial representation by employees. Welfare programs should be developed gradually. They should be expanded only as rapidly as sentiment among the workers seems to warrant. As far as possible the employees themselves should manage, or participate in the management of, the detailed operation of these projects.<sup>1</sup>

If wisely directed and democratically administered, welfare work should produce cooperation, rather than antagonism, on the part of employees toward their employers. Instead of producing resentment among the workers against management's intrusion into their methods of living and its interference with their leisure time, welfare work may be made to breed contentment and loyalty to the "corporation with a soul."

**12. Housing Projects.**—Because of the isolated location of many of its mines and furnaces the Colorado Fuel and Iron Company entered into housing projects for some of its employees. Hershey, Pa., known as "the chocolate town," consists of attractive homes which the Hershey Company owns and rents to its employees. Bourneville Village, located a few miles from Birmingham, England, consists largely of the homes of the workers in the neighboring factory of the Cadbury Brothers. The company rents these houses to its workers and helps them to become home owners by permitting them to buy houses on easy terms. Bourneville Village also contains a park and numerous recreational facilities. Although early company towns like that of Pullman were drab and ugly, recent ventures in both Europe and America testify by their architectural beauty and natural loveliness that such need not be the case. There is no dull uniformity in these later company houses.

During the World War, the United States government built a small village just outside Camden, N. J., for the housing of workers employed in the shipbuilding industries along the Delaware River. These homes are small but very attractive. They show what can be done in this direction by collective action. Model tenements have been constructed by some cities and then rented at low rates to workers. Probably the most expansive development of this sort was carried out by the city of Vienna. The recent depression and recovery periods have witnessed a new interest in this country in public works, not the least of which has been a movement toward the elimination of city slums and the construction of attractive low-priced homes or apartments for workers of modest means.

**13. Recreational Schemes.**—Employers have been as reluctant to inaugurate recreational programs for their employees as to enter upon housing projects. They have often preferred to finance in part these

projects and to leave their actual operation to some outside organization. The industrial branch of the Young Men's Christian Association, for illustration, has cooperated very effectively with both men and management for the promotion of many welfare schemes. Witness the numerous branches of that and kindred organizations which have been established in great railroad and industrial centers.

In some cases, like that of the Illinois Steel Company, the management of the company itself has established club houses for its employees. These generally include reading rooms, lounging and smoking rooms, gymnasiums, and other facilities for exercise, reaction, and social intercourse. Athletic fields and indoor halls are maintained by some firms who have organized teams among their own employees. Baseball, basketball, and bowling contests are held among different firms and among different departments within a given firm. Illustrations are the Strawbridge and Clothier Department Store and the Disston Saw Works of Philadelphia.

It is important that the management of these recreational activities of the workers be administered by their own representatives. It is also desirable that there be some small contribution from all participants, in order that they may feel themselves a part of the plan and that any possible stigma of charity may be removed.

**14. Social Service and Thrift Programs.**—Many large firms maintain social-service departments, while others subsidize existing social organizations in the interests of their own employees. The latter method is perhaps preferable to the former, because it avoids a multiplication of existing social organizations and because it eliminates the criticism that the employer is prying into the private affairs of his employees. The workers themselves may organize permanent or temporary committees to visit the sick and to help restore other unfortunates to economic independence. Such a program may be subsidized and supervised by the personnel department. In special cases, a visiting nurse or trained social worker is necessary for the alleviation of distress or for assistance to families in raising their standards of living by a better budgeting of their incomes. This social-service work should be correlated with a general health program.

Other welfare projects seek the promotion of thrift. They include Christmas or vacation funds, opportunities to buy the stock of the company on favorable terms, and building and loan associations for the purchase of homes. Illustrations are the home-building plans of the Midvale Steel and Ordnance Company and the stock-bonus plans of the Stetson Hat Company. Profit sharing and employee ownership of stock will be treated in the following chapter.

Many companies have pension systems by which they reward the long and faithful services of their employees. Unfortunately, as was seen in Chap. X, these private pensions are often inadequate in amount and

coverage of workers. Hence the necessity for social insurance of various types.

In the absence of such social insurance, or in addition to it, the welfare programs of many companies include the maintenance of disability funds for the care of the sick, injured, widowed, and orphaned members of their large industrial families. Such benefit plans give financial assistance in time of need, encourage thrift among the workers, develop a fraternal spirit among them, reduce labor turnover, and tend to induce loyalty to the company on the part of its employees.

**15. Advantages and Disadvantages of Welfare Work.**—Organized labor has not taken a very sympathetic attitude toward the welfare work of management. It has been stigmatized as "capitalistic feudalism" or as "benevolent despotism," which merely increases the dependence of employees on their employer. The workers sometimes resent attempts to influence the ways in which they spend their leisure time. It is further charged that welfare work has often been given, not in addition to wages, but rather in lieu of wages, *i.e.*, as a substitute for higher compensation.<sup>1</sup>

Organized labor has insisted that the workers be given a greater share in the product of their labor and that they be permitted to spend it as they please. 'It is felt that the paternalistic schemes of some employers reduce their workers from the high level of free men to that of "wards of capitalism." In the last place, it is contended that elaborate welfare schemes have sometimes been inaugurated, not for humanitarian reasons, but to advertise the products of employers and to build up the commercial asset of good will.'

The advocates of welfare work point out in reply that the 'low standards of living of many workers' families are due not only to inadequate earnings, but also to the fact that their wages are not spent economically. Higher standards of living are conditioned not only by more efficient production, but also by more efficient consumption.'

In the second place, welfare schemes can give to the workers the benefits of large-scale production and wholesale purchases. The company store or corporation home should be able to give the employee a better product for the same money. Only in rare cases is compulsion exercised on the worker to induce him to buy at the company store or to live in a company house. This is necessary only when the plant is located in some new section on the frontier of civilization. In most cases, the workers are free to choose for themselves.

**16. Summary.**—Scientific management attempts to apply the scientific method to the problems of increased production. It involves not only the improved organization of industry but also its standardization. Early time and motion studies sought to discover the best method of doing a particular piece of work and to eliminate the former haphazard



methods. Scientific management separates skilled from unskilled work, routine from exceptional tasks and the managerial functions from those of the workmen.

Like the invention of power machinery, scientific management offers to the worker the possibility of increased wages and higher standards of living. Nevertheless, the worker feels that he has not shared proportionately in these gains. Again, he objects to the impersonal and driving effects of scientific management.

Common methods of industrial remuneration are those of time wages and piece work. The latter method of wage payment is based on the amount of work done and not on the length of time served. Although the individual worker may favor piece work because of the possibility of increasing wages, organized labor has often opposed this system, for it speeds up the worker and tends to the practice of cutting piece rates.

The task-wage and premium plans are modifications of the two basic methods of industrial remuneration. The former is negative but the latter is positive. The development of scientific management has been accompanied by the development of the differential wage, or a system of bonus, or premium payments for increased speed or quality.

Personnel administration has supplemented the technical efficiency of scientific management by stressing physiological, psychological, and sociological factors in industry. It has attempted job analyses and the proper selection and placement of workers in industry. In the second place, personnel administration seeks to reduce the friction between men and management by a careful and impartial supervision of transfers, promotions, and dismissals. In the third place, it aims to improve the general working conditions within the plant, because of its conviction that increased production is conditioned not only by excellent industrial engineering, but also by the presence of contented and physically fit workers. In the last place, the personnel department performs or supervises industrial education. This includes not only technical but also general education. It involves safety, health, civic, and other forms of social education, as well as that for greater industrial efficiency.

The ideal of industrial efficiency must be supplemented by that of human welfare. The program of the progressive employer includes not only improved industrial management and better personnel administration, but also increased welfare work. Welfare work represents the extension of managerial supervision beyond the walls of the factory. It includes all those services which an employer performs for his work people over and above the payment of wages. Welfare work includes housing projects, recreational schemes, social service, and thrift programs. Although welfare work has many economic and social advantages, it has been criticized by organized labor as "capitalistic feudalism." The workers have sought not only higher wages and shorter hours, but also

the freedom to spend their wages and leisure time in their own fashion without the interference of the employer.

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### Questions for Discussion

1. What are some of the fundamental concepts of scientific management?
2. On what grounds is it attacked by organized labor?
3. Contrast the economic gains and social costs of scientific management. Are the latter inevitable? Why or why not?
4. Distinguish between time work and piece work and between task wages and premium plans.
5. Show how personnel administration supplements scientific management.
6. Outline the proper functions of a personnel department.
7. How can the personnel department reduce excessive hiring and firing?
8. What do you understand by welfare work? Outline various types.
9. On what grounds is welfare work criticized by organized labor?

### Topics for Investigation

1. Pioneer work of Taylor in scientific management.
2. Recent changes in scientific management.
3. Scientific management and organized labor.
4. Organization and activities of the personnel department of a given plant.
5. Education of the workers within industry.
6. Welfare projects of an industrial concern with which you are familiar.

## CHAPTER XVIII

### EMPLOYEE REPRESENTATION AND PROFIT SHARING

#### INDUSTRIAL DEMOCRACY AND THE COPARTNERSHIP OF LABOR

**1. Political and Industrial Democracy.**—The much used and often abused term “democracy” is capable of many interpretations. For present purposes it will be understood to mean participation in control by the many, rather than autocratic control by the few. Democracy will be viewed as the opposite of autocracy or absolutism in political and economic life.

It should be remembered that democracy is an ideal and a relative term. There is no such thing as absolute democracy, any more than there is absolute justice, absolute goodness, or absolute truth on this earth. Industrial democracy, as well as political democracy, is a progressive concept, for the ideal advances as society progresses toward it. Again, the pathway of democracy, whose upward course is irregular, if not uncertain, is strewn with fantastic experiments, failures, and hypocrisies, as well as with noble and practical achievements.

The worker as a citizen enjoys the right of suffrage, although the political machine sometimes distorts this theoretical and idealistic democracy into virtual dictatorship or actual corruption. However, the citizen as a worker generally has had no such right to participate in the formation of the policy of the industry in which he has labored. Very often he has been a mere soldier in the ranks, whose duty it was to obey rather than to suggest.

Just as political absolutism has given way to political democracy, so industrial absolutism also is now apparently on the wane. It is a far cry back to the absolute monarchy of Louis XIV who was able to say, “I am the state.” It is a far cry also to a generation ago in America, when an officer of a New York street-railway company refused arbitration with his employees on the grounds that they were his servants whose duty it was to do his bidding as long as they were in his employ.

The absence of political democracy results in revolutions for which the ballot box is a substitute. The absence of industrial democracy results in economic unrest which is expressed in strikes and other forms of industrial warfare.

The success of democracy is conditioned by the education of a people. Some recently liberated nations of Europe have discovered that democracy cannot be made safe merely by the elimination of kings and emperors.

"Benevolent despots" in industry also seem to be passing off the stage in favor of the new democratic ideal of the copartnership of labor and capital. Such a situation, however, is likewise conditioned by the spread of public education among the masses and by the development of broad and intelligent leadership in industry.

Industrial democracy may be fostered by political institutions, or it may grow up independently of the state. Thus mediation and arbitration are often accomplished by the intervention of state boards or governmental officers. On the other hand, the trade agreements of joint industrial conferences are accomplished without governmental interference.

**2. Nature and Types of Industrial Representation.**—Industrial representation is participation by workers in the control of their working conditions. It is representative government in industry. This new economic ideal is reflected in such organizations as shop committees, works councils, and industrial councils. It is represented also by collective bargaining through trade unions, which are democratic organizations practicing craft representation rather than employee representation.

Industrial representation may be achieved either by cooperation with organized labor or independently of organized labor. Thus trade agreements are made for some occupations in the joint conferences of employers and trade unions. On the other hand, industrial representation may be achieved within company unions which embrace only the employees of a given firm. Industrial representation by and through trade unions is common in Europe and Australasia, but employee representation by and through company unions is now very popular in the United States.

In 1932, industrial representation through trade unions was about twice as common as that through company unions, if judged by their relative membership in the United States at that time, as disclosed by a report of the National Industrial Conference Board to be discussed later.<sup>1</sup>

Most employee representation in this country is by company unions without trade-union affiliation. In other words, industrial representation in the United States is generally achieved through either company unionism, which is employee representation, or trade unionism, which is craft representation, but rarely through a combination of both.

**3. Aims of Industrial Representation.**—The primary purpose of industrial representation is the reduction of dissatisfaction and unrest by attempting to bridge the gap between labor and capital. The aim is not merely the elimination of strikes and other industrial conflicts, but also the promotion of a better mutual understanding. Works councils and industrial parliaments serve as peaceful mills for the rubbing away of friction points between employers and employees, lest they burst into the flames of open conflict or smolder in secret opposition. Organiza-

<sup>1</sup> See pp. 481 and 482.

tions for industrial representation serve also as agencies of education in the problems and points of view of opposing sides in our present industrial alignment. Better mutual understandings, in turn, promote industrial good will and greater efficiency in production. Although sometimes prompted by practical and even selfish motives, industrial representation is essentially an expression of the new democratic ideal of copartnership in industry.

**4. Beginnings of Industrial Representation in Europe.**—Although industrial representation is a fairly new movement, the germs of such an idea are surprisingly old. Such a plan was presented by the Industrial Commission of the German Constitutional Assembly, held at Frankfurt in 1849, during the temporary ascendancy of the great wave of democracy which swept Central Europe during the middle of the past century. This proposal of industrial representation, which apparently had been dead and buried for three-quarters of a century, came to life again in the plan of industrial representation incorporated in the law of Germany in 1920.

In the opening decades of the twentieth century, particularly just before and during the World War, the greatest progress toward industrial representation was made in England. The British Labour Party and Guild Socialists were very active in the matter of industrial representation. Although the true socialist ideal of such industrial representation is that of the workers only, the practical result has been the organization of numerous industrial councils composed of both employers and employees.

The British Reconstruction Committee Subcommission on Relations between Employers and Employees, generally referred to as the Whitley Committee, made in 1917 its famous report which contained an elaborate scheme of industrial representation. It sought to attack in this fashion an important cause of industrial unrest and to continue the economic cooperation of labor and capital which the war had engendered. Broader dissemination of the control of industry seemed as fundamental as a wider participation in the profits of industry.

The Whitley Committee, therefore, recommended not only works councils but also district, and even national, joint industrial councils wherever they were possible. Great flexibility of organization was desired because of the different character of various industries. The Industrial Councils Division of the British Ministry of Labour was created for the purpose of assisting in the formation of these industrial councils. Unlike President Wilson's Second Industrial Conference, which was greatly influenced by the Whitley report, practical applications of this scheme have been made in Great Britain.

**5. Industrial Representation in the United States Compared with That of Europe.**—Industrial representation exists in the United States,

but not on the same scale as in Great Britain, Germany, and some other European countries in which the movement is older. Industrial representation in America has been confined chiefly to the works councils of individual firms or the collective bargaining of trade unions. It has not yet developed into national, or even district, parliaments of industry, except for the joint conferences of certain highly unionized occupations.

Moreover, industrial representation in this country has expressed itself in two very different and hostile forms, *viz.*, trade unionism and company unionism. Employee representation within the United States has developed apart from the organized labor movement, rather than in conjunction with it. The impetus toward employee representation, *i.e.*, company unionism, has come neither from the government nor from trade unionism, but rather from management.

#### **6. Beginnings of Employee Representation in the United States.**

Employee representation developed on this side of the Atlantic from what was regarded as the very dubious experiment of a relatively few liberal employers. It later established itself as a means of adjusting grievances between men and management. Still later, employers found it to be a means of promoting efficiency and a method of providing for the general welfare of their employees. Finally, employee representation or company unionism was found by management to be a preferable form of industrial representation to that of trade unionism. Consequently, company unions under employer guidance or supervision were fostered as a substitute for or a preventive of trade unions. This was especially true after the legalization of collective bargaining in the National Industrial Recovery Act of 1933.

**7. Nature and Types of Employee Representation.**—That form of industrial representation known as “works councils” or “employee representation” has been defined as follows:

The Works Council may be described as a form of industrial organization under which the employees of an individual establishment, through representatives by and from among themselves, share collectively in the adjustment of employment conditions in that establishment.<sup>1</sup>

Employee representation may be defined as a mechanism to permit employees of an organization, through duly elected representatives from among their number, to confer with management representatives concerning matters affecting working conditions, with a view to arriving at a mutually satisfactory agreement, and, in general, promoting harmonious relations and an understanding on the part of each group of the viewpoint and problems of the other. Various designations have been given to plans of this general character, the most common, in addition to employee representation, being works council, shop committee,

<sup>1</sup> “Employee Representation or Works Councils,” published by the Department of Manufacture, Chamber of Commerce of the United States, E. W. McCullough, Manager, p. 4.

industrial democracy and company union. Industrial democracy, however, is a special form of employee representation patterned after the federal government. The term "company union" should properly be restricted to those plans, found mostly on railroads, which are similar in organization and operation to organized labor unions, except that membership in them is confined to employees of the particular company.<sup>1</sup>

Industrial representation can be classified by extent, as well as by type. A shop committee is confined to one department of a plant, but a works council attempts to represent all the employees of a factory. It would seem, however, that this early distinction between shop committees and works councils is breaking down. At present, the two expressions are used interchangeably.

In addition to local organizations of the employees of a single business concern, there may be larger industrial councils which include representatives of an entire industry or of a whole geographical region. Thus there may be district industrial councils and Federal industrial councils. All of these industrial organizations are similar in that they include representatives of the employees and of the employers, of labor as well as management.

**8. Employee Representation and Craft Representation.**—An interesting point in these definitions of works councils is that this form of industrial representation is along the lines of the business organization, rather than by crafts or industries. It is essentially representation of workers as employees of a particular plant. In other words, it is industrial representation through company unions, and not through trade unions. The walking delegate is not an employee and, hence, is ineligible for representation in works councils.

Such a definition of works councils as purely employee representation by and through company unions is somewhat narrow, but it describes rather accurately the situation in the United States. In Great Britain and numerous other countries, works councils are frequently organized in conjunction with the existing machinery of trade unionism, but in the United States they have developed apart from organized labor.

The extension of works councils into broader industrial parliaments necessitates national, stable and responsible unionism. Such is the situation in Great Britain and numerous other countries in which organized labor is far stronger than in the United States. The failure of industrial representation in the United States to develop beyond works councils into district and national industrial councils is because of the great gap between company unionism and trade unionism. Management often favors the former but fears the latter. Hence its reluctance for expansion beyond the employees of a single plant or corporation.

<sup>1</sup> National Industrial Conference Board, "Collective Bargaining through Employee Representation," p. 2.



It must be repeated that trade unionism is a form of industrial representation, although its basis is by craft or industry rather than along the lines of the business organization. The functioning of collective bargaining in the form of trade agreements between organized labor and associations of employers is between organizations whose bargaining power is relatively strong and nearly equal to that of each other. Hence this form of labor representation and industrial parliamentarianism is perhaps fairer than that of company unions, in which the employees have little bargaining power. These great industrial parliaments which formulate trade agreements are more typical of democracy—at its best and at its worst—than are the benevolent absolutisms of numerous company unions. Works councils always represent industrial government of employees, often for employees, but rarely by employees.

**9. Essentials of Works Councils.**—It goes without saying that the occasional meeting of an improvised committee or delegation of workers with management for the consideration of certain special, temporary, or emergency problems does not constitute employee representation. In order to be regarded as a works council, the arrangement must be on an organized basis and of a continuous nature.

There must also be a definite procedure and an equally definite method of representation agreed on in advance by both employer and employees. There need be no written instrument of government, however, nor a rigid definition of relative powers and functions. Too great a rigidity of structure renders difficult the modification of its organization under the stress of circumstances. In a crisis, the whole scheme may be broken to pieces rather than be modified in part.

Some of the complex and artificial programs of employee representation established in this country during the World War were very ephemeral. On the other hand, the institutionalized practices of certain firms, the product of evolution, change, and experience, have survived. They will probably contribute more to employee representation than many lengthy and rather idealistic documents which represent the crystallization of certain complex, artificial, and rather rigid plans of works councils and industrial democracy.

Even more important than the plan of organization followed by a plant or company is the relationship of the company union to the organized labor movement. Thus employee representation is provided by many companies in lieu of trade unionism. Many firms which maintain works councils as well as profit-sharing, stock-ownership, and welfare schemes for their employees are frankly or secretly open shop, or even anti-union, in their attitude.

**10. Pioneer Works Councils in the United States.**—The earliest recorded works council to be actually operated in the United States was that introduced by the Nerst Lamp Company in Pittsburgh in 1904.

The Nelson Valve Company of Philadelphia likewise established a works council of a different type in 1907. Both of these companies have changed hands and both works councils have disappeared.

In 1911, a plan was introduced by Hart, Schaffner and Marx Company of Chicago which is still in operation. This is the oldest plan of employee representation now in existence in the United States. Other pioneers in this field were the Packard Piano Company and the White Motor Company, which established works councils in 1913 and 1915. One of the earliest, most permanent, and most widely known plans of employee representation is that of the Colorado Fuel and Iron Company, established in 1915 after the long and bloody strikes of 1913 and 1914.

However, the movement toward works councils developed very slowly in the United States in the first decade and a half of its existence. In the year 1917, there were only about eight new installations of works councils in the United States. Indeed, so few were the American experiments in employee representation, and so little publicity had been given to what works councils were then in existence, that the program as outlined in the Whitley Report was widely heralded as an English discovery which was unknown in the United States.

Owing to the demands on industry caused by our entrance into the World War, several Federal agencies actively promoted employees committees in 1918. In the years following the signing of the armistice, however, most of these industrial councils, established under war-time pressure, went out of existence. On the other hand, the number of voluntarily introduced works councils greatly increased.

**11. Postwar Development of Employee Representation in the United States.**—The years immediately following the World War witnessed a great development of company unionism in the United States. According to a survey by the National Industrial Conference Board, the number of companies with employee-representation plans in operation more than doubled from 1919 to 1922, and just about tripled from 1919 to 1926. But from 1926 to 1928, and again from 1928 to 1932, a decline took place in the number of companies with employee-representation plans in effect. The number of workers covered by employee representation, however, increased rapidly and steadily, not only from 1919 to 1926, but also from 1926 to 1928. This decline in number of companies, accompanied by an increase in number of workers covered, between 1926 and 1928, is accounted for by the fact that, although many small companies abandoned employee representation between these years, their places were taken by a smaller number of large companies, which employed more workers under employee-representation plans than had been previously so employed by a larger number of small companies.

This survey<sup>1</sup> by the National Industrial Conference Board found that in 1932 employee-representation plans were effective in 313 concerns, representing a decline of 27.5 per cent from the high-water mark of 1926. Meanwhile, however, the total number of works councils had declined by only 16 per cent. Finally, the number of workers covered by such plans was only 7.9 per cent less in 1932 than in 1926. The answer is that the smaller and weaker concerns had abolished the plans or had permitted them to disappear, or the companies themselves had gone out of business. Larger companies, where they were more necessary, held on to plans of employee representation.

In 1919, 36.1 per cent of companies having works councils employed less than 500 workers, while in 1932 only 13.3 per cent was in the small group employing less than 500. On the other hand, in 1919, only 16.4 per cent of all the companies having works councils employed 5000 or more workers, whereas in 1932 this group of larger concerns constituted 29.2 per cent of the total.

The depression years saw a reduction both in the number of companies having plans of employee representation and in the number of workers covered. Nevertheless, the decline in membership in company unions was probably no greater than, if as great as, the decline in trade-union membership. Again, the improved status and increased importance of collective bargaining under the National Industrial Recovery Act of 1933 were followed by a renewed interest and growth in company unionism, in spite of the prohibition of coercion and the elimination of yellow-dog contracts. Of course, there was a similar revival of trade unionism in the same period because of the famous Sec. 7(a) in the National Industrial Recovery Act.

The total membership in the American Federation of Labor in 1932, according to its annual report for that year, was 2,532,261. The union membership that by broadest interpretation could be considered as in manufacturing and mining, estimated on the basis of voting strength, amounted to 1,251,500. The total number of workers covered by employee-representation plans in 1932, exclusive of railroad employees, as reported to the Conference Board was 932,270. This total is equivalent to 74.4 per cent, or roundly three-fourths of the estimated American Federation of Labor membership in manufacturing and mining.<sup>2</sup>

The following table and Charts 48a and b, based on it, show the progress of employee-representation plans in the United States from 1919 to 1932.

<sup>1</sup> National Industrial Conference Board, "Collective Bargaining through Employee Representation," 1933.

<sup>2</sup> *Ibid.*, p. 3.

**PROGRESS OF EMPLOYEE-REPRESENTATION PLANS IN THE UNITED STATES, 1919 TO 1932<sup>1</sup>**

Classification	1919	1922	1924	1926	1928	1932
Number of companies with employee-representation plans.....	145	385	421	432	399	313
Number of companies establishing new employee-representation plans during period between surveys.....		317	173	59	14	7
Number of companies discontinuing employee-representation plans during period between surveys.....		77	137	48	41	86
Net increase or decrease in companies with employee-representation plans during period between surveys.....		240	36	11	-33	-79
Number of separate organizations in companies with employee-representation plans..	196	725	814	913	869	767
Number of workers covered by employee-representation plans..	403,765	690,000	1,240,704	1,369,078	1,547,766	1,263,194

<sup>1</sup> National Industrial Conference Board, "Collective Bargaining through Employee Representation," 1933, p. 16.

## **12. Development of Employee Representation after Passage of National Industrial Recovery Act.**

In November, 1933, the National Industrial Conference Board conducted a nationwide survey to find how generally employees in manufacturing and mining industries were choosing to bargain collectively with their employers. On the basis of reports from 3,314 companies employing 2.5 million wage earners, it was found that 45.7 per cent of the employees covered in this survey were dealing individually with their employers; 45.0 per cent were dealing through works councils; and 9.3 per cent were dealing through organized labor unions. Of the 653 plans of employee representation reported at that time, 61 per cent had been started since the passage of the Recovery Act. August and September, or shortly after the Act became effective, were the months in which a large portion of these plans were established.

The continuance of union organizing activity by the American Federation of Labor unions and new independent unions, and the adoption of employee-representation plans in companies which had no such plans a few months ago, made it increasingly questionable whether the November figures correctly represented the present-day situation. The Conference Board, therefore, con-

ducted a check-up of the companies that had furnished information in November to learn whether any significant shifts had occurred since that time.

Replies were received from 2,975 companies that had reported in November. These companies employed in May (1934) a total of 2,636,847 wage earners. Employees of these 2,975 companies in November had dealt with their employers

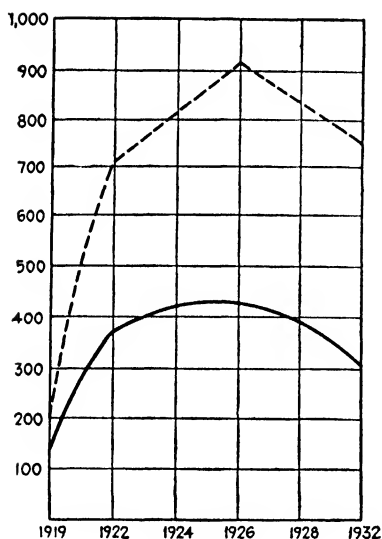


CHART 48A.

CHART 48A.—Progress of employee-representation plans in the United States (1919 to 1932). Solid line—number of concerns with representation plans. Dotted line—number of separate organizations. (According to National Industrial Conference Board, "Collective Bargaining through Employee Representation.")

See table on page 482.

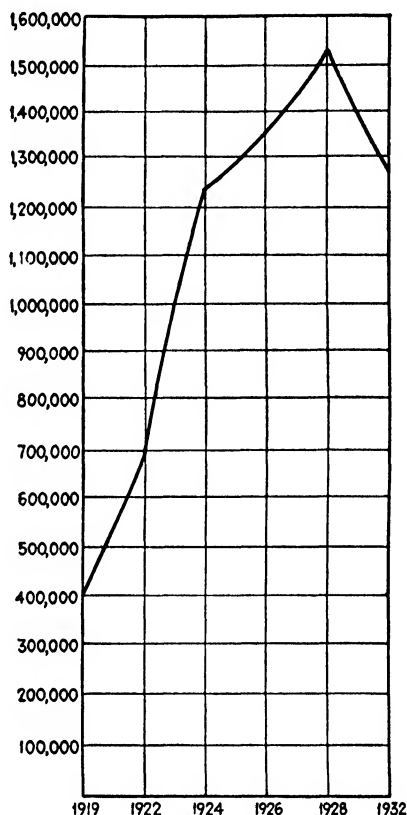


CHART 48B.

CHART 48B.—Progress of employee-representation plans in the United States, as shown by number of workers covered (1919 to 1932). (According to National Industrial Conference Board, "Collective Bargaining through Employee Representation.")

See table on page 482.

on the following bases: individually, 46.1 per cent; through employee representation, 44.9 per cent; through labor unions, 9.0 per cent. In May, 1934, these proportions had changed to: individually, 40.0 per cent; through employee representation, 49.6 per cent; and through labor unions 10.4 per cent. In actual figures 232,623 additional employees in this group of plants had come

under plans of employee representation and 58,397 more workers were dealing through labor unions.

These results indicate that collective bargaining is still gaining but that the rate of increase has diminished sharply from what it was in the month immediately following passage of the Recovery Act. Employee representation has passed individual dealing as the method applying to the largest proportion of wage earners.<sup>1</sup>

**13. Types of Works Councils.**—Plans for industrial representation vary greatly because of the divergent size and character of different industrial establishments. There are two general types, however, which may be termed the “governmental” plan and the “committee” plan. There are, of course, numerous modifications and intermediate plans of these two general types of works councils.

The governmental type of employee representation is modeled on our political institutions, particularly on the national government of the United States. Hence the term “industrial democracy” is sometimes used to refer to this particular type of employee representation, rather than to the entire movement.

The governmental, or industrial-democracy, type of employee representation provides for a cabinet of the executives of the plant, a senate of the foremen, and a house of representatives of the workers. The secret ballot is generally used, and the qualifications of electors are carefully specified. The legislative procedure follows that of the national government with such modifications as are dictated by individual expediency. Such was the plan followed in general by the Nelson Valve Company in 1907 and more particularly by the Packard Piano Company in 1913.

Although many of the older plans of employee representation were of this sort, the industrial-democracy plan of employee representation is now decidedly in the minority as compared with the committee type. Moreover, its importance seems to be decreasing rather than increasing. Hence it may be said that the industrial-democracy plan of employee representation is now chiefly of historical interest. Of all the plans of employee representation surveyed in 1932, only seven were of this older type.

The committee type of employee representation provides for a joint committee of employers and employees, in which representatives of the workers confer directly with management about the various problems which arise within the plant. The pioneer works council of the United States, that introduced by Nerst Lamp Company in 1904, was of this type. The White Motor Company also adopted in 1915 a rather simple shop-committee plan for their much larger number of employees.

<sup>1</sup> Conference Board *Service Letter*, p. 42, June 30, 1934.

The committee type of employee-representation plans, in turn, is divisible into two subgroups, one of which provides for joint committees of men and management, and the other of which provides for separate representation of men and management in the lower committees. The latter plan, which may be regarded as a survival of the older industrial-democracy plan, rests on the assumption that a fuller and freer discussion will be indulged in by the workers if representatives of management are not present at the preliminary stages.

There are two basic and distinct types of employee-representation plans. One, the joint representation type, stresses cooperative action of management and working forces and provides for equal representation and equal voting power on the council. The other, the employee-committee type, assumes that employee representatives can act with greater freedom and more truly represent the working force if there are no management members on the council. An elaboration of the employee-committee type has been developed, particularly where a large proportion of the employees are or have been members of organized unions. Plans of this character, known as employees associations, closely parallel the organization of labor unions, with provision for locals and a governing body of employee representatives, except their membership is confined to employees of the particular company.<sup>1</sup>

**14. Typical Plans of Employee Representation.**—The “Colorado plan” of the Colorado Fuel and Iron Company is a rather elaborate adaptation of the committee type of employee representation. It was created after considerable study and finally put into effect in 1915. The Rockefeller management regarded this plan of employee representation as sufficiently successful to warrant its subsequent application to the Standard Oil Company of New Jersey. A significant feature of the Colorado or Rockefeller plan is that no provision is made for the separate meeting of the representatives of the employees. However, joint conferences of representatives of both employees and employers are held every four months. Each year there are elected joint committees on industrial cooperation and conciliation, on safety and accidents, on sanitation, health and housing, and on recreation and education. Provision is made also for arbitration, if the joint committee on industrial cooperation and conciliation is not able to settle a dispute of its own accord.

In 1919, the International Harvester Company applied works councils in nearly all of its plants for the joint determination of some policies regarding wages, hours, working conditions, health, safety, education, and recreation. Provision has also been made for a board of arbitration to settle controversial points.

<sup>1</sup> National Industrial Conference Board, “Collective Bargaining through Employee Representation,” p. 19.

Some committee plans of industrial representation provide also for the regular and permanent representation of the employees on the board of directors. Such is the plan operated by the Procter and Gamble Company, manufacturers of soap in Cincinnati, and by William Filene Sons' Company, a large department store in Boston.

Although most works councils in this country are the products of company unions from which trade-union delegates are excluded, such is not always the case. Some companies having works councils have also agreements with their respective unions, as well as with their employees. Plans which combine union recognition with the shop-committee features have been worked out by the Baltimore and Ohio Railroad and by the Hart, Schaffner and Marx Company.

A disastrous street-car strike in Philadelphia in 1910 led to a complete reorganization of the management of the Philadelphia Rapid Transit Company. A Cooperative Welfare Association for the workers was created, and finally, in 1918, a scheme of employee representation, accompanied by profit sharing and employee ownership of stock, was adopted. Men and management now settle their difficulties through branch committees, department committees, a general committee, and a board of arbitration. Moreover, when and if the overwhelming majority of the employees demand affiliation with the carmen's union, that alternative is open. Hence this program of employee representation, introduced by the Mitten Management for the car men of Philadelphia, has been said to be democratic. Its practical success has been demonstrated by almost two decades of freedom from strikes and by the failure to date of the car men to demand union affiliation.

Numerous other illustrations of employee-representation plans might be given, but these will be sufficient to exemplify the general types. Administrative detail is far less important to the general student than are the underlying principles and broad functions of works councils.

**15. Objectives of Employee Representation.**—The chief mutual objective of employee representation is the promotion of industrial good will through the better understanding of men by management and of management by men. It is invaluable for purposes of personal contact, if the firm is engaged in a program of health or safety, or in comprehensive welfare projects.

From the point of view of the workers, employee representation gives them an opportunity to present their grievances to the management in a fairly direct or representative fashion. Again, works councils are fairly effective devices for the enforcement of the decisions of boards of adjustment or arbitration. In these ways working conditions may be improved or prevented from retrograding.

The chief objectives of management in furthering employee representation are to secure higher industrial efficiency and a greater economy



of production. Again, it tends to minimize the likelihood of strikes, sabotage, and other forms of industrial conflict that cut down production. In brief, management has come to feel that a contented employee, as well as a healthy one, is more efficient and productive than a discontented worker.

The following objectives of employee representation have been stated from the point of view of management:

1. To promote justice in relationships between working men and management.
2. To insure equitable consideration of grievances and complaints of employees.
3. To furnish worker a means of exercising an appropriate measure of control over his own conditions.
4. To provide means of collective dealing between employer and employee.
5. To facilitate exchange of information and understanding between management and working force.
6. To increase efficiency and loyalty of labor.<sup>1</sup>

**16. Results of Employee Representation.**—The results of employee representation are difficult to determine, for the movement in this country has been primarily a postwar development. Most statements of its results vary, as recounted by management or organized labor. Again, the success of employee representation has varied from time to time, from place to place, from industry to industry, and from employer to employer. In general, these expressions of results are very similar to modified statements of the objectives of the program as stated in the last section.

A number of attempts have been made to secure abundant and periodic reports of the success of the various plans now in operation. Thus a report entitled "Employee Representation in Industry" of the Committee on Labor Relations of the Cleveland Chamber of Commerce in 1923 attempted to evaluate sixteen plans then in operation in that city. The findings were rather impressive, for in nearly every case both executives and employees felt that employee representation had actually succeeded in creating a better leadership and the promotion of economic education among the workers. Some employers recorded the development of a more intelligent and sympathetic understanding of their mutual industrial problems. In most cases, it was felt that such schemes had improved the morale and cooperation of the workers, and in the majority of cases that they had decreased the rate of labor turnover. In some cases, it was felt that the plans had stimulated production through increased efficiency, and even by the adoption of some practical and valuable suggestions of employees. On the other hand, several employers stated that they did not see that the introduction of plans of employee representation had been directly productive of profit.

<sup>1</sup> COWDRICK, E. S., "Management's Handbook."

A study of employee representation by the National Industrial Conference Board<sup>1</sup> reported that the early hopes that employee representation might function as a means of adjusting grievances between men and management had met with only modest success. Accordingly, its functions had changed toward the promotion of increased industrial efficiency and toward the administration of comprehensive programs of welfare work, in both of which respects it has been very successful. Finally, the aim and result of employee representation changed gradually from the settlement of industrial disputes through arbitration to the prevention of industrial disputes by improved and more conciliatory management.

**17. Limitations of Employee Representation.**—Employee representation is not a panacea for all industrial ills. Indeed, it is more of a preventive than a cure for labor disturbances. Although it may tend to reduce industrial conflicts, employee representation will not inevitably prevent strikes. It cannot be expected to produce immediate and lasting results, for it takes time and study to develop skill and competence on the part of management and loyalty and confidence on the part of the workers.

The success of industrial representation is dependent on intelligent labor leadership as well as on the sympathy and vision of employers. Great precautions should be taken in the introduction of any such schemes. Many have failed because they were applied without any previous attempt to create a sentiment in favor of them among the workers. Sudden liberty may spell license to the irresponsible laborer.

Employee representation offers no royal road to industrial grace. No employer should suppose that merely by installing some system of shop representation he can be assured, without continued effort, of harmony and increased production. Doubtless there will be failures where the plan is adopted as a fad or a panacea. It is only a means whereby sincerity of purpose, frank dealing and the establishment of common interests may bring mutual advantages.<sup>2</sup>

**18. Criticisms of Employee Representation.**—Justly or unjustly, organized labor has looked askance at company unions and has insisted that labor must work out its own salvation by means of its own organization and by means of its own weapons of collective bargaining. In 1919, the American Federation of Labor formally expressed its objections to company unions or plant systems of collective bargaining. The charges of unfair elections and of intimidation of representatives were made. It was further contended that the company representatives

<sup>1</sup> National Industrial Conference Board, "Collective Bargaining through Employee Representation," 1933, chap. 4, conclusion.

<sup>2</sup> President Woodrow Wilson before the Second Industrial Conference as quoted in "Collective Bargaining through Employee Representation," p. 43.

attempted to divert the attention of the workers from the real objects of collective bargaining into such items as safety-first movements and educational programs for increased efficiency and greater production. Again, company unions were regarded as lacking in power and in danger of becoming subservient implements of employers' associations. Behind all these arguments lurked the great fear that the whole organized labor movement would be weakened.

On the other hand, many employers also are opposed to industrial representation, but for different reasons. They insist on their individual right to run their own businesses in their own way. Consequently, they resent attempts of their employees to dictate or to pry into what they consider their own affairs. Other employers are sympathetic toward a participation by the workers in the control of industry, but they are very skeptical of labor's ability to do this in an intelligent fashion.

The legalization of collective bargaining by the National Industrial Recovery Act of 1933 made more acute the struggle between trade unionism and company unionism. Leaders of organized labor renewed their criticisms of works councils, first formulated shortly after the war. On the other hand, spokesmen for employers' associations were less severe in their criticisms of employee representation because they regarded it as preferable to craft representation. If the legality of collective bargaining was assured, works councils were in their eyes a lesser evil and a smaller menace than trade unions.

**19. Nature and Objectives of Profit Sharing.**—Greater participation in the product, as well as in the control, of the industry is another aim of the labor movement. Hence the promotion of industrial peace has found expression in profit sharing, as well as in industrial representation.

Although labor has attempted through collective bargaining to increase the share of national income which goes to wages, it has been unable or unwilling to participate in the financial risks of industry. Although demands for increased wages have emanated from the workers, schemes of profit sharing have generally come from employers.

Profit sharing may be defined as a method of industrial remuneration by which the employee receives in addition to his regular wage a definite share, fixed in advance, of the profits of the business. Thus profit sharing does not eliminate the wage system but exists with it as an extra financial inducement to increased production or to decreased waste.

In addition to this objective of increased productivity and efficiency, profit sharing has been regarded as a means of reducing labor turnover. It has been introduced by certain socially minded employers for the reduction of industrial unrest as well as for the promotion of efficiency. On the other hand, profit sharing, as well as employee representation, welfare work, and pension plans, has been introduced also for advertising

purposes. Again, it has been favored by management as a method of strengthening company unionism at the expense of trade unionism.

**20. Types of Profit Sharing.**—Profit sharing may exist in many different forms, but they fall into three general groups. In the first place, profit sharing may take the form of a cash distribution of profits. At the expiration of a definite period of time, profits are computed in a manner formerly decided on and then distributed to the workers as cash bonuses. In the second place, profit sharing may take the form of a distribution of shares of stock in the company. In the third place, profit sharing may take the form of pensions, annuities, or other types of deferred savings.

Profit-sharing schemes may be classified also according to the degree to which they approximate true profit sharing. Many so-called "profit-sharing" schemes represent merely the payment of a bonus in times of prosperity without any real effort to make this bonus conform to net profits. Again, the sliding-scale method of profit sharing is not an accurate or a proportionate method of profit sharing. The profits shared with the workers vary with the price of the product rather than with the net profits of the business organization.

Profit sharing must be distinguished from gain sharing. The former method treats the workers as a group or as a number of groups. The total profit is divided among the total number of workers according to some accurate or rough measure. It makes no effort to determine what contribution to profits has been made by the individual worker and to reward him accordingly. Gain sharing, however, has this very objective. As under piece work, the individual worker is rewarded according to his individual productivity. Although the worker is paid by his time, rather than by a piece rate, his individual productivity is measured. Any excess beyond a previously determined fair rate is correspondingly rewarded out of the profits of the firm. Gain sharing is not related to the cooperative movement so closely as is profit sharing.

**21. Early Development of Profit Sharing.**—Just as works councils had their inception in Germany and England, so profit sharing had its beginnings in France. The first experiment was conducted as far back as 1842 by a house painter and decorator named LeClaire. In 1844, the Paris and Orleans Railroad adopted a profit-sharing scheme. One of the most successful profit-sharing schemes of all Europe was established by Andri Godin at Guise. The movement progressed very slowly, however, until the closing years of the nineteenth century.

Profit sharing was introduced into Great Britain in 1865 by H. Briggs and Company in the Whitwood coal mines of Yorkshire. The failure of this plan ten years later discouraged the further development of profit sharing for some time. In the closing decade of the nineteenth century, however, the South Metropolitan Gas Company tried this experiment. Its original provisions were that each workman was to receive 1 per cent

dividend on his year's wages for every penny reduction achieved in the price of gas per 1,000 cubic feet. Later provisions were added to encourage workers to leave their profits in the business in exchange for stock certificates. Industrial-representation schemes for employees also were included. A copartnership scheme was introduced in the famous soap-manufacturing plants of the Lever Brothers Company. Partnership certificates were issued to all desirable employees who were twenty-two years of age and who had been with the company for four years. Profit sharing was provided by participation in the regular dividends of the company. Although employees as such were not represented in the management of the industry, nearly all of the directors were former employees of the company. An elaborate welfare program also has been carried on by this firm for its employees.

One of the first experiments in profit sharing in this country was introduced in 1870 by a New York carriage-building firm. A new impetus was given to the general movement in 1872 by the formation of the Association for the Promotion of Profit Sharing. Most profit-sharing schemes, however, have been short lived and many of them have been failures. Nevertheless, in 1886 was inaugurated one of the most successful profit-sharing plans in the United States, *viz.*, that of the N. O. Nelson Company of St. Louis. The original scheme provided that 6 per cent interest should be paid on the capital invested and that profits in excess of that amount should be divided proportionately between the capital and the total wages funds for any year. Later changes were the creation of a reserve fund out of a 10 per cent allowance each year and the provision that profits were to remain with the company until they were large enough to be distributed in the form of stock certificates to the employees. In 1887, profit sharing, which the company later supplemented by employee representation, was established by the American soap-manufacturing firm of Procter and Gamble of Cincinnati. The scheme originally provided for cash payments of profits to employees in the same ratio that wages bore to the total expenses of production. Stock dividends were later substituted.

**22. Sliding Scale of Profit Sharing.**—The simplest form of profit sharing is what is known as the "sliding scale." The basic assumption is that profits tend to vary directly with the price of the product. In such arrangements, there is generally a minimum level on this scale below which wages cannot fall, no matter how precipitously prices may drop. In other words, the employer must always offer at least a living wage.

It should be remembered, however, that the enterpriser will close his plant, rather than operate under prohibitive costs of production. In other words, this guarantee of a minimum wage merely means that the worker must accept the alternative of unemployment rather than that of a wage lower than the prescribed minimum.

The sliding scale has been used with some success in the metal and mining industries where price changes are frequent and necessitate corresponding wage changes. Under this system of sharing profits, wages tend to rise automatically in periods of high prices and prosperity. There is no possibility of concealing profits, for the price barometer of prosperity can be read by all workers.

The very simplicity of this scheme is a disadvantage as well as an advantage. Although possessing administrative ease, it has certain economic defects. Price changes are only very rough indicators of profits. Thus the anthracite mine owners protested against the award of the Strike Commission of 1902. They contended that the price of coal would continue to rise as it became increasingly necessary to sink deeper shafts and to mine less accessible anthracite. Hence the rising price of coal represented increasing expenses of production rather than greater net profits.

**23. Direct Profit Sharing.**—The deficiencies of the sliding scale have stimulated attempts at a more meticulous division of profits. In order to determine net profits, it is necessary for the enterpriser to fix in advance the value of his services to the business and to pay himself a fixed salary in addition to the interest on the capital he has invested. After all expenses of production have been deducted, the net profits are divided among enterpriser and workers according to some definite ratio previously agreed on.

Although this scheme of profit sharing is more accurate than the sliding scale, it has more administrative difficulties. It is not easy for some workers to understand why the enterpriser estimates his own services at so high a figure. Again, the necessary publicity as to expenses and profits may be detrimental to the business. On the other hand, if a policy of secrecy is maintained, there may be suspicion on the part of employees that the books have been unfairly kept.

This direct type of profit sharing has been successfully applied chiefly by small firms where the workers know the enterpriser intimately and trust him implicitly. Again, it seems to require intelligent workers as well as honest and able enterprisers.

There are some large firms, however, which have successfully applied this form of profit sharing. The enterpriser is generally an officer of the company whose salary is as definitely fixed as the wages of the workers. It is a fairly easy task to total the wage bill, the salary bill, the interest on the capital investment, and other costs of production. Profits are then divided between men and management according to some previously agreed on plan.

Experience has shown that profit sharing has succeeded in times of prosperity, but that it has often gone down on the financial rocks of depression. Workers are willing to share profits, but they are unwilling

or unable to share losses. Consequently, it has been found advisable to set aside each year a certain percentage of the net profits as a reserve fund for periods of depression.

**24. Deferred Profit Sharing.**—Another type of profit sharing is that of deferred savings and insurance. Instead of a cash bonus, an equivalent sum is placed to the employee's credit. Sometimes these accounts may be drawn against, but often they are regarded as inviolable until the employee has reached a certain age or has served a certain number of years with the employer.

Accumulated profits of the employee constitute various sized shares in the capital investment of the enterpriser who regularly pays interest on them according to some fixed rate. Again, they may operate as funds for the granting of annuities or insurance. Participation in a strike or a dishonorable discharge may result in the forfeiture of at least a part of the accumulated profits or anticipated benefits. Hence such deferred schemes of profit sharing, like pension systems, can be used as very effective weapons by employers in an industrial crisis.

Plans of deferred profit sharing have been fairly common among the thrifty French workers, but they have been relatively rare in Anglo-Saxon countries, unless employee ownership of stock, which is somewhat similar, is so classified.

**25. Issuance of Stock as a Means of Profit Sharing.**—The giving to employees of shares of stock, instead of cash bonuses, is another form of deferred profit sharing. This participation in the profits of the industry is regarded by some employers as an effective means of encouraging thrift on the part of the worker and of developing on his part an increased and continuous interest in the welfare of the business. Moreover, it does not necessitate the taking of funds out of the capital investment, for the profits of the worker, like those of the recipient of a stock dividend, will remain in the business.

Although a cash bonus is generally more popular with employees than the giving of shares of stock, employers are inclined to favor the latter method of profit sharing, for it increases the hold of management on the workers. In order to reduce labor turnover and industrial disturbances, it is sometimes further provided that the withdrawal of an employee from his occupation may result in the forfeiture of at least a portion of his accumulated profits.

Profit sharing in the form of an issuance of stock to employees may lead to overcapitalization or stock watering. The process is so easy that it is difficult to prevent the overcapitalization of the good will of employees before it is actually created, or in excess of the business value which it represents. It will be remembered that monopoly profits were often capitalized before the consolidation or merger actually took place, and that the total par value of the securities of the new concern were fre-

quently several times that of the value of its combined physical assets.

In some cases, shares of stock have been given to employees, not because of the existence of any previously agreed on scheme of profit sharing, but as a voluntary and gratuitous recognition by the employer of a certain number of years of faithful service on the part of his employees. Such has been the custom for a number of years of the Stetson Hat Company of Philadelphia.

Before the stock market crash in 1929, another popular plan of profit sharing was to permit employees to buy shares of stock in their company at prices somewhat lower than those in the open market. In some cases, such stock might be paid for on the installment plan out of future wages.

The sale or transfer of shares of stock given to employees as a means of profit sharing is undesirable but difficult to prevent. Hence certain English and American firms have issued to their workers a special type of non-marketable stock certificate. Such securities may not be sold without the knowledge and consent of the management. Otherwise, the rapid sale of securities issued to employees as a means of profit sharing might lead to the conversion of a carefully devised system of deferred profit sharing into an unregulated form of immediate profit sharing.

The United States Steel Corporation paid a bonus to its employees in proportion to the number of shares of stock owned for a certain length of time. In this way, the workers were encouraged to hold their stock. In addition to its extensive welfare program, employee ownership of stock was introduced by the company at the very time that it was endeavoring to suppress labor organizations within the steel industry. The workers contended that they preferred higher wages to stock ownership and shorter hours to welfare work.

The Philadelphia Rapid Transit Company introduced profit sharing as well as employee representation. The plan provided for a wage differential and for the ownership of stock in the company by the employees. Many other public utilities have encouraged the ownership of their stock by both employees and consumers of their products or services.

On all sides the hope was expressed that the participation by employees in the profits, as well as in the control, of industry, would reduce industrial unrest and promote greater harmony between labor and capital. Indeed, the recent increase in stock ownership by employees before 1929 was so great that Carver referred to the movement as another industrial revolution.<sup>1</sup>

**26. Extent and Character of Employee Ownership of Stock.**—An analysis was made by Dr. Scholz, of the Wharton School, of employee

<sup>1</sup>CARVER, T. N., "Present Economic Revolution in the United States."



stock-ownership plans of large corporations<sup>1</sup> during the period of their great popularity before the stock market crash in 1929. According to Moody's 1924 books of commercial ratings of industrial, public-utility, and railroad companies, there were at that time 117 corporations whose assets were listed as over 100 million dollars. Of this number, 50 were industrials, 36 railroads, and 31 public utilities. A questionnaire was sent out to each of these corporations. Of the 96 answers received, 52 stated that some plan was in effect by which employee ownership of stock in the company was promoted.

If the replies received may be taken as typical of large corporations during the period of prosperity between 1921 and 1929, about one-fourth of their employees were stockholders in the companies which employed them. The average number of shares per stock-owning employee was found to be 9.57. The shares held by employees were fairly evenly divided between common and preferred stock.

The questionnaire endeavored to ascertain also to what extent the shares of stock owned by employees carried voting privileges. Although it was evident that some plans were designed to promote employee ownership but not employee control, for the most part the shares of common stock held by the employees represented common stock with voting privileges similar to common stock held by individuals not in the employ of the corporation. Although many classes of preferred stock held by employees did not carry voting privileges, the same was often true of preferred stock in general.

One of the most interesting features of this analysis was the evident newness of most of these plans to promote the ownership of stock by the employees. The date of inauguration of the plan was requested in each questionnaire and the results showed that 90 per cent of these schemes had been begun since the World War. The oldest of these plans had been in existence only twenty years.

A still more extensive investigation of employee ownership of stock was published in 1928 by the National Industrial Conference Board.<sup>2</sup> It found 315 companies which were either selling or which had previously sold any sort of stock to all or to selected employees. These companies had a total of 2,736,448 employees, of whom there were 806,068 employee-stockholders and subscribers, or less than 30 per cent of the total number of employees. Moreover, this relatively small number of "wage-earning" stockholders was inflated by the inclusion not only of actual workers, but also of the better paid groups, such as executives and technical experts. In twenty of the largest corporations, in which

<sup>1</sup> Directed by Dr. Karl Scholz of Economics Department, University of Pennsylvania. Recorded in unpublished manuscript.

<sup>2</sup> National Industrial Conference Board, "Employee Stock Purchase Plans in the United States."

employee stock-ownership has been relatively widespread, the ratio of all employee holdings to the total market value of the outstanding stock was only 4.26 per cent. After allowing for duplication the National Industrial Conference Board estimated, just before the depression of 1929 to 1933, that about one million employees in the United States owned or had subscribed to about one billion dollars' worth of stock.

**27. Limitations of Employee Ownership of Stock.**—These findings of the National Industrial Conference Board were criticized as follows by a student of social insurance who was persuaded of the inability of many workers, even during the period of great national prosperity before 1929, to provide for their own future out of their own savings.

This means that only one out of twenty-five of these workers has purchased industrial stock. Since the market value of the total corporate stock was estimated in excess of \$95,000,000,000 in 1926, and under the present inflated values must be far above \$100,000,000,000, it appears that the American wage-earners, together with their fellow technicians, have still a long road ahead of them before they can capture control of American industry. At present, they have more than 99 per cent of the way to go.

Recently, many corporations have abandoned stock-selling plans because they have found it unprofitable to "encourage the habit of watching the ticker," to teach workers the "joy of clipping coupons" or of "rewarding those employees who are resourceful gamblers." It is plain that we cannot justify a theory of a new industrial revolution upon such a flimsy base. The proportion of workers owning stock, and the shares which they control, are negligible, even if their shares had voting power. And in the overwhelming majority of instances, this is not the case. Undoubtedly, a large portion of these shares is in the hands of the more adequately paid salaried and professional employees. It is estimated that 325,000 "employees" own more than half of the workers' stock. Probably very few real workers are in possession of more than one or two shares. Assuming that the workers' share of industrial stock brings them as high a dividend as 10 per cent, the total annual addition to their pay would be \$100 a year for those owning the stock. Divided by the entire body of industrial workers, the dividend would amount to an extra \$4 a year. Can such a sum give the American workingman a feeling of profound participation in the prosperity of American industry?<sup>1</sup>

**28. Postdepression Criticisms of Employee Ownership of Stock.**—Employee ownership of stock, which had been lavishly praised in the decade of rising security prices before 1929, came in for equally widespread criticism during the deflationary years of the recent depression. A survey issued in 1933 by the Industrial Relations Section of Princeton University declared that both men and management have lost more from the employee stock-ownership movement, as a whole, than they have gained "in improved morale and dollars saved." This verdict was based

<sup>1</sup> EPSTEIN, A., "Darker Phases of American Prosperity," *The New Republic*, p. 316, Feb. 6, 1929.

on a study of 50 plans which were selected as being "as representative as possible of the movement as a whole." Of the stock sold to employees, the median quotation of 18 preferred and 17 common issues fell more than 80 per cent between 1926 and 1932.

Many factors combine to make the purchase of stock in their employing companies a questionable form of investment for the lower-paid groups of wage-earners. What the low-wage worker needs is not a chance at speculative gain but security of principal.

Unemployment, part-time work and wage cuts are almost certain to occur at the very time when stocks are selling at a low figure. Under the circumstances investment in company stocks had failed to protect adequately employee savings at the time when they were most needed.

The possibilities for future developments of stock-purchase plans lie in the formation of investment trusts or the limitation of sales to selected employees who can afford the risk.<sup>1</sup>

**29. Limitations of Profit Sharing in General.**—To what extent does profit sharing accomplish its objectives? Profit sharing, unlike gain sharing, does not reward the individual worker in proportion to his superior or increased productivity. Hence its effectiveness as an industrial stimulus is questionable. The relationship between increased exertion and increased profits on the part of the individual worker is not direct. It assumes a social consciousness and an industrial *esprit de corps* which is often lacking. On the other hand, if it succeeds in developing these valuable qualities, profit sharing is desirable. If it succeeds in fostering sympathy and mutual regard for the importance of labor, business enterprise, and invested capital, it is of economic service.

Experience has shown that profit sharing may result in contention as well as in cooperation. Profits are often reduced by changes in demand and other outside influences. Although production may have been carried on more efficiently than ever before, losses rather than profits sometimes stare the enterpriser in the face. Are the workers ready to share these risks of industry? The elimination of the enterpriser will not eliminate his functions as the shock absorber of modern economic society.

Organized labor has consistently opposed profit sharing as well as employee representation. It has charged that the full market rate of wages is generally not paid where cash bonuses are distributed. Such is apt to be the case unless profit sharing acts as a far greater stimulus to increased production and to decreased waste than most employers seem to think. Labor prefers a fixed rate of wages to participation in profits.

<sup>1</sup> "Employee Stock Ownership and the Depression," Industrial Relations Section, Princeton University.

Moreover, labor leaders view such attempts of employers as efforts to weaken organized labor and its weapons of collective bargaining. To these alone the workers must look for increased wages. Although schemes of deferred profit sharing appeal to the employer as clever devices for reducing labor turnover, they soon undermine the independence of the worker and the mobility of labor. At best, they are regarded by organized labor as the paternalism of some well-intentioned employers.

The practical test of experience also can be applied to profit sharing. In both Great Britain and the United States, such schemes have shown a high rate of mortality. About one-half of the profit-sharing enterprises begun in the former country were subsequently abandoned. A similar study was made in the United States in 1916. Of the sixty plans then found to be in operation, only seven antedated 1900. One-half of the total had been started within the previous five years and two-thirds within the previous ten years. Only one-third of these paid profit shares which amounted to 10 per cent of the wages and only one-twelfth shares which amounted to 20 per cent of the wages.

The sequel to this story has just been told in recounting recent experience with employee ownership of stock, which was very popular before 1929, but equally unpopular during the years of depression which followed. Such experience seems to reveal a fundamental weakness, not merely in this particular form of profit sharing, but also in the general movement itself.

It should be remembered, however, that the proportion of ordinary business failures is so great that it is remarkable how many individuals fly in the face of statistics and engage in business. Again, little progress would be made if it were not for ambitious individuals who are constantly snatching success from failure. The record of all successful inventions, discoveries, and businesses is strewn with failure.

Profit sharing is a rather difficult economic experiment, but it has been successfully done by individuals with sufficient vision, tact, and executive ability. These striking individual successes prevent us from feeling that too much social and individual effort has been expended in this direction. There are many paths which lead to industrial progress. The recent stimulus given to employee representation may be accompanied by the revival of profit sharing in some new or improved form.

**30. Summary.**—Industrial democracy represents a reaction against the centralized control and autocratic operation of industry. Its two chief manifestations are employee representation and profit sharing, *i.e.*, the participation of workers in the control and in the ownership of industry. Industrial democracy represents the copartnership concept of industry.

Industrial representation is illustrated by works councils and joint industrial councils. It may be restricted to the employees of a given

business organization and function through company unions, or it may be broader in its scope and related to the trade-union movement. The works councils of Europe are generally an integral part of the organized labor movement. The company unions of America are generally independent of trade unions. Organized labor is hostile to company unions and refuses to regard them as legitimate associations for effective collective bargaining.

Profit sharing generally accepts the wage system. It merely provides for some participation in profits by the workers in addition to a basic or minimum wage. Gain sharing, in contradistinction to profit sharing, seeks to make the individual's share of the profits dependent on his individual productivity, rather than on that of the entire group.

The simplest form of profit sharing is the sliding scale which assumes profits vary with the price of the product. Other forms of profit sharing make the workers' participation in profits vary with the net profits of the business, rather than with the price of the product. Profit sharing may take the form of cash bonuses or of many different types of deferred savings. One of the most important phases of the profit-sharing movement in recent times is the attempt to make the employee a stockholder in the industry.

Although there are many striking illustrations of successful profit sharing, many of these attempts have been short lived or restricted in scope. A successful enterpriser and far-sighted employees seem essential to the success of profit sharing. Many plans of profit sharing have led to internal dissensions or have failed to provide a strong incentive to increased production. The success of profit sharing seems to depend as much on general market conditions as on the productivity of the workers.

Within the United States, employee representation and profit sharing have generally been inaugurated by employers rather than by the workers or by governmental legislation. They have frequently been accompanied by intensive personnel work within the plant and by extensive welfare programs outside the plant. Employee representation and profit sharing usually have been twin elements in the comprehensive plans of various employers for the economic betterment of their own workers.

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### Questions for Discussion

1. What do you understand by industrial democracy in its broad sense?
2. Distinguish between employee representation and craft representation.
3. Distinguish between industrial representation and employee representation.
4. Show some differences between the development of industrial democracy in Europe and in the United States.
5. Illustrate the recent growth of employee representation in the United States.
6. Is this movement practical and desirable? Why or why not?
7. What are the chief types of employee representation? Illustrate.
8. How is profit sharing related to industrial representation?
9. Show the relationship of each of these movements to personnel administration and to welfare work.
10. Does profit sharing propose the elimination of the wage system? of the enterpriser? Give reasons for your answer. Give qualifications.
11. Outline the different types of profit sharing.
12. Which do you regard as the fairest? The most practical? The most promising? Give reasons in each case.
13. What reasons can you give for the frequent failure of profit sharing?
14. What general conditions do you regard as essential to its success?

### Topics for Investigation

1. Works committees and industrial councils in England.
2. Compulsory works councils in Germany.
3. Colorado plan of industrial representation and its success.
4. Organization plans of a company union with which you are familiar.
5. Organized labor and employee representation.
6. The history of the sliding scale of profit sharing.
7. Profit sharing in a small establishment.
8. Profit sharing in a large concern, *e.g.*, a public utility.
9. Employee ownership of stock.





## PART SIX

### PROGRAMS OF RECONSTRUCTION

Chapter XIX. The Cooperative Movement, *The Elimination of the Enterpriser.*

Chapter XX. Socialism and Syndicalism, *The Elimination of Capitalism.*

Chapter XXI. Industrial and Social Progress, *The Elimination of Maladjustments.*



## CHAPTER XIX

### THE COOPERATIVE MOVEMENT

#### THE ELIMINATION OF THE ENTERPRISER

**1. Nature and Aims of the Cooperative Movement.**—Works councils and profit sharing propose merely the copartnership concept of labor and management. The cooperative movement, however, would dispense altogether with the business enterpriser. A given business would be run, not by an individual enterpriser or a corporation organized for profits, but cooperatively, *i.e.*, by a representative committee of workers or consumers. In the absence of an enterpriser, private profits would be eliminated, or rather divided among workers or consumers according to some previously arranged plan. The cooperative movement represents collective, rather than individual, enterprise in the production and distribution of economic goods.

The primary objective of any truly cooperative movement is mutual benefit, rather than profits. Its immediate aim is the reduction of the economic wastes of our competitive system by the elimination of middlemen and individual employers. The ultimate aim is the evolution of a cooperative commonwealth. Although such an aim may be revolutionary, its methods of attainment are peaceful. Moreover, the process is viewed as a gradual one.

State socialism is political and is superimposed from above. The cooperative movement is economic, rather than political; moreover, it is a group, rather than a national, experiment. Cooperative associations can grow up within a given economic society without destroying it. They can demonstrate their merit or lack of merit in comparison with the present competitive and individualistic system. Indeed, a cooperative association has been regarded as socialism within the test tube. The status of private-property rights, however, is different under the two systems. The cooperative movement recognizes not only the importance of capital, but also the propriety of private-property rights in producers' goods.

**2. Types of Cooperation.**—The cooperative movement has many phases, and cooperatives can be divided into various types. Some of these classifications overlap. Thus there are producers' cooperatives, consumers' cooperatives, and distributors' cooperatives. There are cooperative organizations for the selling of goods and cooperative organizations for the purchasing of goods. Again, there are agricultural

cooperatives for the farmer, and other cooperatives for industrial workers and city residents. Finally, there are pure cooperatives and various compromise arrangements.

Consumers' cooperation is represented by cooperative stores, which may be subdivided into wholesale and retail cooperatives. Cooperative retail stores divide profits among their members according to their purchases. Cooperative wholesale stores do the same for their own members, which are cooperative retail shops in Great Britain and individual enterprises in this country.

Producers' cooperation is represented by factories or stores, owned by the workers, run by the workers, and with profits divided among the workers.

Distributors' cooperation might more properly be called "marketing cooperation." It seeks to reduce the wastes of our present system of distributing goods by a more intelligent and mutually helpful coordination of effort. It would eliminate the private profits of the middleman and the commission merchant. Distribution in this sense means the marketing of goods, particularly agricultural products, and does not refer to the division of the national income among the various factors in production.

Cooperative credit associations are represented by mutual savings banks, mutual life insurance companies, and cooperative loan associations. Building and loan associations for the financing of home buying also fall within this category.

Agricultural cooperation is a composite form, because it includes one or more of these more specific types of cooperation. Cooperative producing associations, cooperative marketing associations, cooperative credit associations, or a combination of them, are represented. However, distributors' cooperation for the better marketing of various crops is perhaps the most important aspect of agricultural cooperation.

**3. Rochdale Cooperative Plan.**—Cooperative stores, representing consumers' cooperation, constitute one of the most important phases of this general movement. They may be said to date from the famous Rochdale cooperative store which was opened in 1844. Although first advocated by the great Utopian Robert Owen, the Rochdale plan was really devised by neither theoretical economists nor practical captains of industry, but by a score of humble English flannel weavers.

The capital for the original Rochdale cooperative store was subscribed by prospective purchasers who lived in the vicinity. Shares of stock had a par value of £1 each. Hence they could be purchased by individuals in moderate circumstances. A fixed rate of interest of 5 per cent was specified before any profits should be distributed. An old building on a side street was rented and the total sales of the first week amounted to only £2.

The general policy followed was that of charging current market prices for articles sold at the cooperative store. Profits were not placed in the market basket. A purchase check, which stated the amount of his purchases, was given every buyer. At the end of each quarter, total receipts were balanced against total expenses and the net profits of the store were computed. Profits were then divided, not among stockholders in proportion to shares of stock held, but among purchasers according to the amount of purchases made during the past quarter. Profits were made because of the economy of collective buying at wholesale rates. Again, business was done on a strictly cash basis, which eliminated losses from uncollected accounts. Full publicity was given to financial records, a simplified statement of which was available to all members.

A unique feature of the Rochdale plan was its democratic form of management. Every stockholder possessed only one vote, and not one vote for every share of stock held. Wide participation in the benefits of the cooperative store resulted from the provision that a prospective member and purchaser need make a cash payment of only one shilling, or one-twentieth of the par value of a share of stock, and then contribute the remainder in part payments out of his share of the profits earned. Non-members might buy at cooperative stores, but a share in profits was contingent on membership, which could easily be secured.

**4. Development of Consumers' Cooperation in Great Britain.**—The Rochdale plan was a success from its very beginning. Other cooperative stores, imitating its fundamental features, soon developed. Consumers' cooperation finally reached enormous proportions in Great Britain, which now has almost fifteen hundred retail cooperative stores alone, that do an annual business of approximately £200,000,000. Their total membership includes millions of individuals and their aggregate capital represents millions of pounds.

The English Cooperative Wholesale Society was formed in 1864, for the purpose of collective buying for its cooperative retail stores. Its object was the absorption of the profits of individual jobbers and wholesalers. Profits of this cooperative wholesale society were similarly distributed among its member retail stores in proportion to their purchases. Total annual sales of the English Wholesale Cooperative Society alone have averaged about £100,000,000 during recent years. Its employees number about forty thousand.

The step from cooperative wholesale societies to cooperative manufacturing and farming was as natural as that from retail stores to wholesale societies. Cooperative wholesale societies began to manufacture and to grow certain products for themselves, instead of continuing to buy them from profit-making producers. The English Cooperative Wholesale Society is now the largest flour miller, as well as the largest biscuit manufacturer, in Great Britain. It is engaged also in the manufacture of

clothing, furniture, groceries, and numerous other articles. It maintains iron works and coal mines in England and tea plantations in Ceylon. Its own merchant fleet carries its products from one part of the globe to another.

**5. Advantages and Limitations of Consumers' Cooperation.**—Cooperative societies conduct their productive enterprises just like any other business corporation, with the qualifications just indicated. They strive to maintain good working conditions and to pay their employees fair wages, but their workers do not necessarily possess industrial representation or a voice in management. Moreover, employees of consumers' cooperative societies do not receive shares in the profits except in so far as their purchases there warrant.

The obvious advantages of consumers' cooperation are a reduction in costs of living and the promotion of thrift. The standardization of economic wants and the elimination of waste also are important. Moreover, there are social as well as economic advantages, which are represented by the promotion of cooperation rather than competition, and the ideal of mutual benefit rather than that of individual gain.

**6. Consumers' Cooperation in Europe and the United States.**—The cooperative movement spread from England to Scotland, Wales, and Ireland, and from Great Britain to Europe and America. Although it has attained some success in Germany, Denmark, and other countries of Europe, consumers' cooperation has nowhere else developed to the same proportions as in Great Britain, which has been especially fortunate in the type of men who have identified themselves with its leadership.

Within the United States, consumers' cooperation has developed very slowly. A number of reasons suggest themselves as possible explanations. As American wages have been higher than those of Great Britain and Europe, economic pressure toward thrift and economy has been less severe here. Moreover, it is alleged that the American is an individualist and less experienced in cooperative movements. Again, retail stores are very attractive in this country and their variety delights the American consumer who may be less willing than the English consumer to standardize his consumption. The relative mobility of labor and the heterogeneous character of our industrial population may be additional contributory factors.

Whatever the causes may be, the fact remains that cooperative stores have often met with failure in America. Although a number of profit-making private enterprises have posed as cooperative stores, they have been cooperative in name only and have used this slogan for the purpose of increasing sales.

On the other hand, this country has witnessed the development of chain stores, department stores, and mail-order houses. Because of the economies of large-scale buying and large-scale management, such

organizations have frequently been able to cut prices and to undersell the small retailers. Americans have patronized them lavishly, under the more immediate stimulus of taking their profits in the market basket.

During the World War, the pressure of prices on income was so severe that the cooperative movement in the United States received a new stimulus. At the close of the war there were three thousand such societies doing an annual business of 200 million dollars. Unfortunately, some of these new and small ventures were unable to weather the period of falling prices and liquidation which followed. However, there is still in existence the Cooperative League of America and a number of fairly successful cooperative stores.

**7. Cooperative Wholesale Associations in the United States.**—At present, cooperation or extinction seems to be the choice of the independent neighborhood store in the large cities of the United States. Consequently, many wholesale cooperative associations have come into existence. Some of them have had a rather lengthy and successful history. The most noteworthy are organizations of retail druggists and grocers, who found it necessary to organize in order to protect themselves against the competition of the chain stores.

The specific purpose of these cooperative associations is to permit the retail druggist or grocer to enjoy the economies of purchasing in large quantities, which appears to be the chief advantage enjoyed by chain stores. These retail merchants are individual enterprisers in business for profit and in competition with each other. Nevertheless, their wholesale organizations are cooperatives, for profits are divided among their members according to their respective purchases.

The Philadelphia Wholesale Drug Company is such a cooperative organization. Its shares of stock are owned by a membership composed of retail druggists, who purchase their goods from the cooperative wholesale association. Non-member druggists also can purchase from this organization, which does an annual business of millions of dollars. The Frankford Grocers' Association, a similar cooperative wholesale organization, has been in existence for almost half a century. It possesses a membership of over fifteen hundred and does an annual business of millions of dollars.

**8. Producers' and Consumers' Cooperation Compared.**—Producers' cooperation is sometimes associated with consumers' cooperation, but the two schemes are vitally different. Although the former is older than the latter, it has not met with the same success. Consumers' cooperation seeks to reduce prices and to lower the cost of living, whereas producers' cooperation seeks to raise wages and to improve the working conditions of labor. Producers' cooperation is represented by the self-governing workshop and the appropriation of profits by producers, rather than by consumers. It is an experiment in industrial democracy.

The two types of cooperation are similar in that both represent collective action rather than individual initiative, and both would eliminate the enterpriser. Moreover, both plans are based on individual representation rather than on the number of shares of stock. One man one vote is the general principle of all cooperative enterprises.

**9. Origin and Development of Producers' Cooperation.**—Producers' cooperation, like profit sharing, developed first in France. The revolution of 1848 gave a stimulus to self-governing workshops, but the movement was a general failure, or rather the original idea of Louis Blanc was never fairly applied. In Great Britain, producers' cooperation was first expressed in the communistic schemes of Robert Owen. Later experiments there and elsewhere also failed. The dismal record of producers' cooperation stands out in marked contrast to the brilliant success of consumers' cooperation.

In 1919, there were only ninety-five producers' cooperatives affiliated with the Cooperative Union of Great Britain, as compared with 1,357 consumers' cooperative societies. Whereas the membership of the former numbered only 40,000, the membership in the latter was over 4,000,000. The gross sales of the former were £7,000,000, as compared with £314,000,000 of the latter. Moreover, a large portion of these small sales of producers' cooperative societies represented sales to other cooperative societies.

Within the United States there have been a number of attempts at producers' cooperation, such as those of the Knights of Labor. Although the record has been one of general failure, there are such notable exceptions as the Cooperative Barrel Manufacturing Company of Minneapolis and the Columbia Conserve Company of Indianapolis. A study by the Bureau of Labor Statistics in 1925 showed only thirty-nine schemes of producers' cooperation then in operation in the entire United States. Moreover, their number seems to have been decreasing as well as small. In 1930, the Bureau of Labor Statistics reported only twenty plans of producers' cooperation then in existence in this country.

**10. Trade Unionism and Cooperation.**—Attempts at producers' cooperation have been made by several trade unions, some of which have extended their activities into the field of banking and various other forms of business. These varied cooperative activities of strongly organized trade unions indicate that producers' cooperation may become an important phase of the future labor movement.

That such a development is strewn with difficulties is illustrated by the experience of the Brotherhood of Locomotive Engineers; this organization engaged in the operation of a coal mine. In order to keep down expenses and make its business a financial success, this union consented to employ non-union labor in its West Virginia mine. Such a situation



represented a departure not merely from producers' cooperation, but also from the essential principles of trade unionism.

**11. Difficulties of Producers' Cooperation.**—A number of difficulties present themselves, which may be partial explanations of the failures of producers' cooperation. Chief among them is the difficulty of securing capital. Workmen's savings are a very meager source from which to draw, and the capitalist is not apt to lend funds to an enterprise of which he doubts the desirability as well as the success.

A second difficulty is lack of managerial ability. Workers are not always good business men, for the successful enterpriser is a combination of natural ability, acquired education, and experience along commercial lines. Workers have often failed to realize the importance of business enterprise to successful production and have failed to offer sufficient reward to attract capable managers. Numerous cooperative schemes, which were headed by honest but inexperienced individuals, have failed because of the lack of competent and experienced generalship.

On the other hand, where producers' cooperation has been a success, there has frequently been a tendency to prevent other workers from entering on similar terms. The result is a corporation with hired employees, some of whom own shares of stock. When the principle of one man one vote yields to the principle of one share of stock one vote, the organization has ceased to be cooperative in the strict sense of the word. The capitalization of past successes and past profits by the veteran members generally terminates the experiment in producers' cooperation.

Producers' cooperation has succeeded chiefly in small establishments which require skilled craftsmen, rather than abundant capital and unskilled labor. The existence of a relatively stable demand for the product is another element favorable to the success of producers' cooperation.

**12. Agricultural Cooperation in Producing, Purchasing, and Extending Credit.**—Farmers have often cooperated with each other in building barns and harvesting crops, but the development of capitalistic agriculture created the necessity for further cooperation. Machinery is often too expensive for one farmer to purchase by himself. Moreover, a single individual will not want a machine continuously. The result is a simple form of cooperation. One farmer buys a tractor and another a threshing machine. Each lends his capital to the other.

This primitive cooperation has sometimes been more highly developed. Thus there may be a mutual association of farmers, which buys machinery and then rents it to its members. This is quite common in Denmark, where the creamery is often a cooperative venture of the local dairy farmers, rather than an individual profit-making enterprise. In the United States also, at the present time, are several thousand cooperative

creameries, located chiefly in Wisconsin and the surrounding states. This area supplies about two-fifths of the dairy products of this country; of this portion, in 1929, about three-fifths were supplied by cooperative creameries' associations.

Cooperative purchasing also plays an important part in agricultural cooperation. Over half the ten thousand cooperative associations which were supported by farmers included purchasing functions among their various activities. These purchases consist largely of feed, fuel, containers, building materials, seed, fertilizer, machinery, tools, and other articles in common use by the farmer. The cost of handling these goods for distribution by the cooperative purchasing agencies has been as low as from  $1\frac{1}{2}$  to 2 per cent of their purchase prices.

Another need of the American farmer has been cheap credit and loans secured by agricultural collateral. In 1916, the Federal Farm Loan or Rural Credits Act was passed. This law permitted the organization of joint-stock land banks and farm loan associations. The latter were cooperative societies somewhat similar to city building and loan associations. Both financial institutions operated successfully for the extension of credit to the farmer before the deflation period of 1929 to 1933.

**13. Agricultural Cooperatives for Marketing and Distribution.**—One of the essential aims of the farmer has been the efficient and profitable marketing of his crops, especially those agricultural staples in which a surplus production has been a frequent occurrence. Cooperation in distribution and improved methods of marketing are imperative. The grower of cotton and grain will do well to note the successful cooperation in marketing achieved by the fruit growers of the Pacific Coast.

Fruits and vegetables are cooperatively marketed on a large scale. At the present time, in this country alone, fully two hundred thousand growers support over one thousand marketing cooperatives. Some of these agricultural cooperatives are local and serve merely neighboring markets, such as the Cooperative Society of Hammonton, N. J., which for thirty years has shipped various kinds of berries to Philadelphia and other neighboring cities. There are also larger cooperatives, whose markets are national, rather than local. Such is the case with several of the California organizations, which market various kinds of fruit all over the United States and Canada. These large cooperative distributing agencies may be federations of small local cooperatives, such as the California Fruit Growers' Exchange, or centralized organizations, such as the Sun Maid Raisin Growers.

The California Fruit Growers' Exchange now handles about 10 per cent of the oranges and grapefruit grown in that state and about 90 per cent of its lemon crop. In 1927 and 1928, it did a business of approximately 100 million dollars. This cooperative is a non-profit-making organization composed of about two hundred local packing houses, which

receive the fruit from the surrounding growers, whose interests the cooperative seeks to serve. The Florida Citrus Exchange is a rival organization of similar organization and purpose, which also does a national business, but on a somewhat smaller scale. The enormous apple crop of Oregon and the Northwestern states is marketed similarly by a distributors' cooperative organization.

The growers of cotton have long suffered from inadequate marketing facilities and from precipitous declines in prices, due to the frequent existence of a surplus supply. Under the pressure of such a depression, the cotton growers held a convention in 1920 to create a plan for the more profitable marketing of their cotton crop. Cooperative marketing organizations seemed to be the only possible solution, but separate state organizations were preferred to a centralized sectional organization for the entire cotton-growing area. Oklahoma took the lead in 1921, and by 1923 all the important cotton-growing states had provided for cooperative cotton-marketing organizations. These cooperatives had some success in the marketing of cotton, but they were unable to achieve the stabilization of price. Their power was limited by virtue of the fact that only about 10 per cent of our cotton crop was controlled by such cooperatives.

The growers of grain in the Northwest, like the cotton growers of the South, suffered similarly from inadequate marketing facilities and from serious declines in the price of wheat. Long before the recent agricultural depression, the various granger movements had developed numerous voluntary experiments in cooperative marketing. These organizations included cooperative grain elevators, or warehouses for the storing of wheat, state or regional pools, and, finally, producer-controlled cooperative selling agencies. Between 3,000 and 4,000 farmer elevator associations with a membership of about 500,000 and an investment of approximately 65 million dollars were in existence before the great depression. In 1929, there were eight major cooperative marketing organizations located in North Dakota, Minnesota, and Indiana. These associations sought to secure a fair grading of wheat, its adequate storage, the regulation of competition, and the reduction of speculation.

Cooperatives were recently empowered to buy grain and to hold it over until its price became more favorable. In this way, they attempted to peg its price. Wheat pools have been created by cooperatives to stabilize upward the price of wheat, just as traders formed pools to manipulate for their own profit the prices of commodities or securities. Wheat pools formed by cooperatives for the stabilization of the price of grain were rather unsuccessful in their recent attempts to stem the tide of falling prices.

**14. Cooperative Credit and Banking.**—Cooperative credit societies first developed in Germany about the middle of the last century. They

took the form of small unincorporated associations of farmers or tradesmen. The absence of limited liability meant that greater care was exercised in the granting of loans. Their loanable funds represented the savings of members which were placed on deposit. These might be borrowed by other members for legitimate and carefully supervised business purposes. Rates of interest to members were cheaper than those charged by commercial banks, and most of the officers served without compensation.

Credit unions, the American name for credit cooperatives, represent a rather recent development, for which Edward A. Filene of Boston has been chiefly responsible. In 1921, less than a dozen states had authorized the formation of such associations, but by 1926 thirty-two states had legislation which permitted the formation of credit unions. They have been most common and successful among homogeneous groups, such as railroad workers and postal employees.

Small loans are made from the funds of the association, which come chiefly from the subscriptions of members to the stock of the credit union. Although these loans are carefully supervised, no collateral is required. However, the application for a loan must be endorsed by at least two fellow members. The interest charges of these credit unions to their fellow members have sometimes been rather high, but not nearly so high as those charged by loan companies organized for profit, to which the poor man without collateral is often forced to resort. Moreover, profits go, not to an individual enterpriser, but back in the funds of the cooperative credit union.

**15. Building and Loan Associations.**—Among the earliest cooperative credit societies in Great Britain and the United States were building and loan associations. Their purpose was not industrial, as in the case of the German credit associations, but rather the owning of one's own home. The first building and loan association in America was founded in Frankford (now a part of Philadelphia), in 1831. Since that time, such societies grew in numbers and resources until the great depression of 1929 to 1933.

Building and loan associations are cooperative societies by virtue of the fact that the borrower becomes automatically a stockholder. Profits are divided among all stockholders in proportion to the number of shares; and most of the officers serve without compensation. Voting is generally done by individuals and not by shares of stock.

Under the famous Philadelphia plan, the borrower in a building and loan association pays double dues, one-half of which represents the interest and the other half a part payment on the principal. These payments are usually made each month and continue for the number of years required to amortize the principal by this slow repayment process. The borrower, however, can pay the balance of his loan at any time.

**16. Cooperative Savings Banks.**—Cooperative banks have long existed in both Europe and America. Savings banks were developed as institutions to promote thrift and to enable workers safely to invest their small earnings. The first savings bank in America was instituted in New York in 1816 after an English model. Early savings banks were cooperative in the sense that they were mutual. There was no capital stock, and deposits constituted the entire source of loanable funds. Profits were proportionately divided among depositors. Later mutual savings banks had capital stock but paid the stockholders a fixed rate of interest and divided all profits in excess of this amount and general operating expenses among their depositors. As under the Rochdale plan, the patrons shared profits proportionately.

In Great Britain, cooperative credit developed apart from consumers' cooperation. In 1872, however, the English Cooperative Wholesale Society decided to embark on this new venture. At first, English cooperative banking was far from successful, but the experiment was continued. In 1920, the bank was still in existence with almost six thousand accounts, although most of them represented the funds of trade unions, friendly or fraternal societies, and other cooperative associations.

**17. Labor Banks.**—Many cooperative banks within the United States received their chief impetus from trade unions. For illustration, a Brotherhood of Locomotive Engineers' Cooperative Bank was opened in Cleveland, Ohio. A similar banking venture was made by the same organization in Philadelphia. The Amalgamated Clothing Workers also entered the banking business. Stock was issued in shares of small par value, and the trade unionists constituted the majority of the stockholders, and even of the depositors.

Cooperative banking received a setback in the spring of 1925, when the Producers' and Consumers' Bank of Philadelphia closed its doors. Although the officers of this bank were men of integrity, they had displayed little ability as bankers. The assets and liabilities of this cooperative labor bank were taken over by the Mitten Bank, a financial organization closely related to Mitten Management which operated the Philadelphia Rapid Transit Company.

The limited growth and success of labor banks, even during the period of great national prosperity before 1929, have been described as follows:

Their growth since the establishment of the first bank, in 1920, led the prophetic economists to conclude that in a few more years the workers, in control of their rising savings, would be able gradually to buy out most of our industries and corporations, and thus establish the labor commonwealth through the peaceful penetration of Wall Street. Labor banks have now had a sufficient period of existence to justify a calmer appraisal. In October, 1928, the total resources of the labor banks amounted to a little over \$113,000,000. The mere

fact that only a few weeks ago the third private bank in New York City entered the billion-dollar class, while many more come close to this, will enable us to realize the extent to which the workers have succeeded in their invasion of Wall Street. It is also significant that during 1928 the number of labor banks has declined from thirty-three to twenty-seven, while their total resources have diminished by over \$11,000,000.<sup>1</sup>

**18. Workers' Savings.**—Equally serious was the slow growth of workers' savings, as measured by deposits in savings banks and by labor's ownership of corporate securities. Data collected by the American Bankers Association indicate that total savings deposits in all banks in the United States increased from \$8,404,373,000 in 1912 to \$26,090,902,000 in 1927, and that in the same period the number of savings depositors increased from 12,605,260 to 48,354,784. In other words, during the fifteen years of almost uninterrupted prosperity before the great depression of 1929 to 1933, savings deposits more than tripled, and the number of savings depositors almost quadrupled. Do not these general figures permit considerable optimism as to the growth of workers' savings and do they not warrant the belief that labor shared in our recent prosperity to the extent of becoming part owners of the national capital?

However, these figures are misleading and no such optimistic conclusions can be drawn from them. The reported figures of savings depositors in 1912 were probably below their true amounts, for before 1914 only a few states reported depositors in savings accounts in trust companies or in state banks other than strictly savings banks. Hence the growth of savings depositors was not so rapid as would appear from a superficial examination of these figures. Again, it was further contended that the large number of savings depositors in 1927 was inflated by the inclusion of certain commercial accounts and the accounts of millions of school children. In the last place, all such figures must be refined in terms of the rising price level, for the purchasing power of the dollar had fallen in these fifteen years to about half its former level.

Had the American worker become so prosperous that he invested his savings in larger amounts, *i.e.*, by the purchase of corporation stocks and bonds, rather than by the small-scale method of savings banks? It was contended that the World War, which was attended by Liberty Bond campaigns and the advent of baby bonds, taught the workers the pride and joy of the ownership of securities. The step from government bonds to corporation bonds and stocks was easy and natural. Indeed, it paved the way for the later campaign of employee ownership of stock, discussed in the last chapter. This general movement was accelerated or intensified by the speculative fever before the stock market crash in 1929.

<sup>1</sup> EPSTEIN, A., "Darker Phases of American Prosperity," *The New Republic*, p. 315, Feb. 6, 1929.

Such a line of reasoning is very plausible, but let us see just what were the facts concerning ownership of corporation securities. Although it is often asserted that the number of stockholders in this country increased from less than five millions in 1900 to about fifteen millions in 1927, such estimates ignore the fact that duplication occurs because many of these stockholders are the same individuals, owning stock in many different companies. During the peak of prosperity and speculation in 1929, it was estimated that only about three million individuals in the United States owned corporation securities.

Only one in every thirty persons in the United States now belongs to the legion of capitalists! Investigations have shown that some individuals own as many as 500 different stocks.<sup>1</sup>

**19. Mutual Insurance Companies.**—Insurance represents not only saving, but also protection. It is the workers' chief bulwark against industrial insecurity and the common insurable risks of everyday life.

Most life insurance companies and some property insurance companies have been mutualized; *i.e.*, policyholders become stockholders automatically. Even when operated for profits, the very nature of insurance is cooperative, for it is a diffusion of risk. Insured individuals who do not suffer loss or hardship compensate, financially at least, those who do. If the insurance company is mutualized or profit sharing, it is even more cooperative in character, for profits in excess of costs of operation, payments of benefits, and reserve requirements are distributed to policyholders or deducted from their premiums. Most beneficial associations are cooperative societies, but they have often ignored the principles of scientific insurance and failed to provide adequate reserves for their contingent liabilities.

**20. Summary.**—The cooperative movement eliminates the enterpriser and substitutes collective action for individual initiative. Unlike state socialism, it is not a national, but a group, movement. Of course, both movements have their international aspects and are democratic in nature. Moreover, cooperation is economic rather than political, and evolutionary rather than revolutionary.

The cooperative movement presents three phases: consumers' cooperation, producers' cooperation, and cooperative banking and credit. The cooperative movement among farmers is distributed over all three of these fields. Distributors' cooperation is represented by improved marketing organizations, which may or may not be strictly cooperative in character.

The Rochdale Cooperative Store was the pioneer experiment in consumers' cooperation. It was eminently successful and spread from

<sup>1</sup> McCoy, JOSEPH S., actuary of the U. S. Treasury, quoted by A. Epstein in "Darker Phases of American Prosperity," *The New Republic*, pp. 315-316, Feb. 6, 1929.

retail associations to wholesale associations and from England to other countries. Although it has developed to enormous proportions in Great Britain, consumers' cooperation has not made much headway in the United States.

Producers' cooperation, as represented by self-governing groups of workers engaged in manufacturing enterprises, has not been very successful. The enterpriser is eliminated, for the workers own, as well as direct, the enterprise. The lack of capital, the scarcity of managerial ability, and the constant tendency to exclude new workers limit the success and extension of producers' cooperation.

Numerous types of cooperative credit associations exist. Prominent among them are the loan associations of Germany and the building and loan associations of the United States. Cooperative banking institutions are illustrated by mutual savings banks. Land banks are cooperative organizations for the extension of credit facilities to the farmer.

In spite of these various cooperative credit associations, it is doubtful if the per capita real savings of workers increased in the period of national prosperity before 1929 as rapidly as was commonly assumed to have been the case. Organized labor, feeling the need of improved credit facilities, became interested in a number of cooperative banking ventures.

Insurance also has felt the impetus of the cooperative movement, for many life insurance companies have mutualized.

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#### Questions for Discussion

1. Compare the cooperative movement with profit sharing.
2. How does the cooperative movement differ from socialism?
3. Outline different types of cooperation.
4. Explain the plan of the Rochdale Cooperative Store.
5. Why do you think consumers' cooperation has met with so little success in the United States as compared with Great Britain?
6. What do you understand by producers' cooperation?
7. Compare it with consumers' cooperation.
8. Has producers' cooperation been successful? Why or why not?
9. Explain and illustrate different types of agricultural cooperation.
10. Explain and illustrate different types of cooperative banking.
11. What do you understand by distributors' cooperation? Is it a part of the cooperative movement? Why or why not?

#### Topics for Investigation

1. The Rochdale pioneers in the cooperative movement.
2. Producers' cooperation in France.
3. Cooperation in the United States for the marketing of farm products.
4. The tendency toward mutualization in the insurance business.
5. Labor organizations and cooperative banking.
6. Building and loan associations as cooperative societies.
7. Grain and cotton cooperatives in the United States.
8. Attempts to restrict production and to stabilize price through cooperative action.

## CHAPTER XX

### SOCIALISM AND SYNDICALISM

#### THE ELIMINATION OF CAPITALISM

**1. Nature of Socialism.**—There are so many different types of socialism that it is difficult to define the movement with exactness. Only a broad definition is possible. The common essential in all true schools of socialism, however, is the substitution of collective ownership and control of industry for individual initiative and the present competitive system. The profits motive is to be eliminated or reduced in favor of the social-service motive. A democratic organization of the workers is to succeed industrial absolutism.

Socialism involves some fundamental changes in the institution of private property. Although permitting property rights in a certain amount of consumption goods, socialism attacks private-property rights in land and capital. Socialism seeks to eliminate property incomes from such sources as inheritance, rent, interest, and profits. Wages would be the only form of income, and all incomes would be earned incomes. Socialists differ among themselves on the question of equality or inequality of wages. They generally regard the salaries of brain workers, as well as the wages of manual laborers, as earned incomes.

The cooperative movement would eliminate the individual enterpriser, and the single-tax movement the landlord, but socialism would go still further by eliminating also the capitalist. On the other hand, socialism does not go so far as communism, because the latter refuses to recognize any property rights whatsoever.

Socialism is entirely different from anarchism, although the two movements are sometimes regarded as similar and related. Anarchism seeks the reduction of governmental functions and the elimination of the political state, although this may be done by evolutionary, as well as by revolutionary, methods. State socialism, on the other hand, seeks the increase of governmental functions, for it proposes that the state own and operate all basic industries. In short, the two movements are at opposite poles, for anarchists minimize political action and some would destroy the state, whereas socialists magnify political action and some would glorify the state by extending its functions from the regulation to the operation of industry.

Socialism does not propose the elimination of religion, the church, or the institution of the family. It is true that certain early socialists were

atheists and some also proposed to substitute promiscuity for the monogamous family. Their radical religious and social proposals, however, have nothing to do with the economic creed of socialism. There are Christian socialists and agnostic capitalists. It might be argued with equal falsity that all socialists are Christians and that all capitalists are agnostics.

There are many programs of social reform which are socialistic but which are not socialism, because they do not involve the collective ownership and operation of industry. The defeat of such measures is sometimes accomplished by the use of invective, rather than reason. The specter of socialism is paraded through the legislative halls with deadly effect.

**2. Socialists' Indictment of Wastes of Competition.**—Socialists usually begin their arguments with a criticism of the present economic system, rather than with a statement of the proposals of socialism. To a mind in which a burning consciousness of the evils of modern capitalism has been aroused, the promises of socialism stand out in bright relief. Remedial measures and other alternatives are slighted, and socialism in general or a certain type of socialism in particular is stressed as the one way of economic salvation.

The first indictment of capitalism made by socialists is that the present competitive system is wasteful. There is an unnecessary duplication of material equipment and human effort. Thus the railroads developed as competitive enterprises under individual initiative. The result is the present struggle to develop integrated systems and to bring order out of chaos. Would it not have been better for the state or some other central agency to have directed the railroad development of the country? The tendency toward monopoly can easily be seen in other industries. Our economic development has been from small-scale production to large-scale production with all the advantages of the latter. The present tendency seems to be toward large-scale management and monopoly. As private monopoly is unthinkable, governmental ownership is necessary.

The advantages of monopoly result from the greater utilization of the economies of large-scale manufacture and management with the consequent elimination of the wastes of competition. They can be seen in the meat-packing and steel industries, as well as in public utilities. There are advantages in administration and distribution, as well as in production. Cross freights can be eliminated and the goods shipped from the nearest point to the consumer. Witness the economies of a large mail-order house or a large department store with its unified credit and delivery departments. On the other hand, note the lost effort which results when numerous milk wagons and bread boys cover the same route to the discomfort of the sleeping millions of our large cities. Compare

this situation with the distribution of the mail by a single centralized governmental agency.

In a similar fashion, socialism would reduce not only distribution costs and selling expenses, but also the enormous wastes of competitive advertising. Ugly billboards would no longer shriek the merits of *X* kidney pills as compared with *Y* kidney pills, or *A* shaving cream as compared with *B* shaving cream.

It is generally agreed that a monopoly price is more stable than a competitive price. That the present system does not work smoothly is attested by the business cycle with its constantly recurring periods of depression. Socialists claim that misdirected production and economic crises will continue until individual enterprise in the basic industries is replaced by economic planning by a central governmental agency.

**3. Socialists' Indictment of Economic Inequality and the Profits Motive.**—Another criticism of the present economic system arises from the persistence of glaring inequality of wealth and income. We have seen how unequally the national income is distributed among the people of the United States. At the present time, the nation possesses several thousand millionaires and several million paupers. Conspicuous consumption exists, on the one hand, and dire poverty, on the other. Socialists point out that, if all incomes were earned and if all property incomes were eliminated, such economic inequality would be reduced.

The socialist also criticizes the profits motive, which directs production under our present system. Economic demand, rather than social welfare, is the indicator which production now follows. Inequalities in income make possible the production of luxuries for some before necessities for all.

Moreover, the quality of economic goods also suffers. It is profitable to produce shoddy cloth, to adulterate food, and to make things which are injurious to their users if they have a ready market. "Illth," rather than wealth, is the result.

The method of production also is important. Goods are made in ugly factories which belch out clouds of smoke into the air we breathe, and which pour streams of refuse into the water which is used by towns farther down the river. Public health and aesthetic values are threatened by this spirit of gain. The conservation of natural resources is impossible in a pecuniary society dominated by the profits motive.

The sordid profits motive has developed our acquisitive traits and inhibited our cooperative efforts. The esteem of one's fellows, or social recognition, is desired by every member of society. The valor of the soldier and the research of the scientist are rewarded by the laurel wreath, rather than by monetary compensation. To certain groups at all times, and to all groups at certain critical times, the social-service spirit transcends the profits motive. Such a spirit could be extended to normal

industrial life, were it not that the profits motive has dominated our economic order and has expressed success in terms of the dollar mark. Social recognition, rather than the accumulation of fortunes, might have proved an adequate reward for those great captains of industry who have led the army of economic progress.

In the last place, socialism indicts the present system as productive of human, as well as of economic, wastes. Not only does the profits motive lower the social plane of competition and degrade human nature, but it is responsible also for certain economic maladjustments, many of which have been discussed in earlier chapters. Child labor, unemployment, dangerous trades, and occupational diseases are laid by socialists at the door of modern capitalism. In spite of the fact that labor is the source of all wealth, the wages of many workers are inadequate to maintain decent standards of living. Because the instruments of production are owned by a propertied class, labor is exploited and does not receive its full product. Much of this, it has been argued, would be reduced or eliminated by socialism.

**4. Proposals of Socialism.**—The very definition of socialism gives its first and fundamental proposal, that of collective ownership and operation of the instruments of production. Some socialists would apply collective ownership to all instruments of production and would permit individual ownership only of the worker's own home, clothing, and personal effects. More conservative socialists, however, would apply collective ownership only to basic industries. Between these two extremes are many compromise positions. Most socialists would permit the farmer to claim as much land as one man could cultivate. He could not rent an excess amount to another individual, nor could he hire a laborer to till his land for him. In these cases, the wage system or the landlord would be reintroduced. Although the individual tradesman might be permitted in certain businesses which are by nature small scale, all large stores and manufacturing plants would be collective enterprises.

The change from individual to collective ownership of industry involves a process of confiscation to which many people object. The socialist replies that the landlord and capitalist have already confiscated for themselves the free gifts of nature and the products of labor of all workers. Socialism is therefore not confiscation, but recovery. Moreover, the old argument of confiscation opposes all social reform. The abolition of human slavery involved the confiscation of the property of the poor widow who owned but a single slave. In order to avoid the charge of confiscation, a socialistic state might purchase private industries from their present owners by exchanging corporate stocks and bonds for the governmental bonds of the new socialistic state. In this manner, collective ownership of industry might be established without confiscation. However, inequality of wealth would persist. Unless these

government bonds were to become worthless, interest must be paid on them. This would constitute a form of property income repugnant to all true socialists.

Socialism proposes the elimination of all forms of income except wages. Although earned income is the only type of income which socialists recognize, this includes the rewards of brain as well as of brawn. Moreover, it does not follow that all incomes should be the same.

The slogan of communists is: "From each according to his ability and to each according to his needs." Such a system of distribution is one of flat equality of income, or one which recognizes only those differences due to variations in the size of the family or to unusual circumstances. The ideal of most socialists, however, is that of acquisition according to productivity along socially desirable lines. Such a system of distribution has been termed a functional economy, as contrasted to the flat equality of communism or the glaring inequalities of capitalism.

Most socialists recognize the necessity for a moderate wage differential in proportion to economic productivity, or at least in proportion to individual effort. If all workers received the same wage irrespective of their economic productivity, there would be a dangerous tendency toward idleness or soldiering on the job. To apportion income according to the size of the family would be to accentuate the Malthusian tendency and to reward biologic productivity, rather than economic productivity.

The exact method of determining wages under socialism is a matter of considerable controversy. There would probably be a minimum wage in order to prevent any individuals from living below a decent standard of living. Above this line, wages would vary according to the subjective sacrifices or the objective productivity of the workers. There would be no enormous salaries or property incomes of any sort.

Under a strictly competitive system, the prices of goods and the wages of labor are determined in the open market by the forces of supply and demand. Under socialism, price as the controlling and organizing factor would play a less important role. However, socialism does not necessitate the complete elimination of a price system, although it would considerably modify it. It would be necessary for some central agency to plan production and to decide what goods should be produced, in what amounts, and by what order of priority. Again, that same, or another, governmental bureau would be forced to determine the productivity or sacrifice of a given worker in order to fix his wages. The price of a given commodity might be evaluated solely in terms of the amount of labor which it represents and without regard to other elements such as rent, wages, and profits. Again, prices might be scaled in accordance with social needs without reference to costs of production. Thus a high price would discourage the consumption of certain scarce or deleterious com-

modities, and a low price would encourage the consumption of plentiful or beneficial commodities and services. It is difficult to conceive of any governmental agency qualified to perform such a task or of any method by which this might accurately be done in the absence of a competitive price fixed by the natural forces of supply and demand.

Commodity money might be used under socialism, although there would be no private banks or bankers. Socialism does not necessarily involve an abandonment of the gold standard or of ordinary credit currency. On the other hand, wages might be paid in labor checks which, in turn, could be used for the purchase of goods from government stores.

Socialism proposes to substitute an industrial democracy for an industrial absolutism. Control by the workers through some form of industrial representation is regarded as essential. This factor in socialism was overlooked by many early state socialists, who proposed to substitute governmental ownership and operation for individual initiative in industry, but who failed to provide any method for the democratization of industry. State socialism with its centralized governmental bureaus failed to give the workers a voice in the control of industry. Hence guild socialism developed its ideal of the self-governing workshop.

There are a number of miscellaneous proposals of socialists, which, although not a part of socialism in the strict sense of the word, are generally associated with it. Thus socialists propose certain educational reforms. Children would be prevented from leaving school at an early age and going to work. Educational opportunity would be extended in all directions. The government, rather than benevolent individuals, would be the builder of museums and art galleries. The state would become the patron of the arts and sciences. Community centers, parks, and playgrounds, as well as supervised theaters, would be provided for the recreation of all citizens of the socialist state.

Health and safety in industry, as well as improved housing and better living conditions, would be promoted. Municipal tenements would take the place of slums. Public hospitals would be open to all, and many physicians would be governmental officers paid by salaries, rather than fees. Social insurance is not socialism, but the latter generally includes the former. A socialistic state would provide not only workmen's compensation for industrial accidents, but also sickness insurance, unemployment insurance, and old-age pensions.

**5. Tenets of Karl Marx.**—The "Communist Manifesto," published in 1848, the year of the revolution in Central Europe, was the political platform of socialism. It contained its various proposals for that time. "Das Kapital," a later work of Marx, contains an elaborate exposition of the economic theories of Marxian socialism. "Das Kapital" has been regarded as "the Bible of Socialism." It is to socialists what Henry

George's "Progress and Poverty" is to single taxers. This monumental work is basic to all theories of socialism, whether of Marxian or of dissenting schools.

Marxism, known also as "scientific socialism," is so fundamental to the entire philosophy of socialism that some of its leading principles must be outlined in any discussion of socialistic theory. These included his materialistic interpretation of history, his doctrines of the concentration of capitalistic control and the exploitation of the proletariat, his theories of labor value and surplus value, his overproduction theory of industrial crises, and the doctrine of class struggle.

Marx's materialistic interpretation of history, in brief, is that the economic environment is the determining factor in civilization. In other words, our political life, our social institutions, and even our religious and moral ideas are vitally affected by our economic environment. Consequently, the industrial revolution was of profound significance. The invention of power machinery and the introduction of the factory system have influenced not only our economic life, but also our cultural institutions. The result is a crass materialism and an identification of wealth with welfare.

The invention of power machinery and the introduction of the factory system result inevitably in the substitution of large-scale production for small-scale production. The craftsman and the small independent producer gradually disappear. Indeed, the middle class or bourgeoisie will ultimately cease to exist. Again, there is a growing concentration in the control of industry, illustrated by the modern trust. While the capitalist is increasing in power and wealth, the workers are suffering from ever-increasing poverty and misery.

Marx's doctrine of the exploitation of the proletariat, *i.e.*, workers who have been dispossessed of their instruments of production, is closely connected with his theory of surplus value. Starting with the then current classical theory of Ricardo, Marx contended that the value of any commodity depends on the quantity of socially necessary labor contained in it. The productivity of capital unaided by labor was denied, and labor was regarded as the primary or ultimate source of all wealth. Capital itself is merely stored-up labor. Inasmuch as interest, rent, and other forms of property income are recognized today, the worker does not receive all the wealth which he produces. A surplus value, or the difference between the wages of the worker and the value of his product, is appropriated by the capitalist. Hence the laborer *is exploited*.

Another principle of Marxian socialism is that of overproduction as the cause of industrial crises. Because of the existing inequality of wealth, the poorer classes in society cannot buy enough. On the other hand, the wealthy groups have an income in excess of their needs and are



forced to invest a large share of it in productive enterprises. The result is a further increase in production until more consumption goods are in existence than can be disposed of at existing prices. The result is an economic depression or a halting of the processes of industry until consumption again catches up with production. The socialists point to our regularly recurring economic crises as proof of this doctrine of overproduction. They contend that crises are inevitable under modern capitalism, and that they are becoming steadily worse. As they will finally become intolerable, capitalism carries within itself the seeds of its own destruction.

A final principle of Marxian socialism is that of class struggle along economic lines. History records the story of the struggles between masters and slaves and between lords and serfs. The industrial revolution created an irremovable and ever-widening gulf between capitalists and proletariat. Scientific socialism does not preach revolution but regards it as inevitable. As the middle class disappears, the conflict of interests between the two extremes in society will become more intense. The dispossessed proletariat will finally rise in their might. By sheer power of numbers, they will take possession of the instruments of production and operate them collectively. The wage slavery of modern industrialism will then be eliminated by the dictatorship of the proletariat.

**6. Criticism of Marxism.**—This mere outline of the underlying principles of Marxism is too brief even to state them thoroughly and with sufficient qualifications. One of its weakest points, however, is the labor theory of value, which has been abandoned by neo-classicists. Even if it be admitted that labor is the ultimate source of all wealth and that capital itself is stored-up labor, the fact remains that roundabout production, or labor aided by capital, is more productive than labor unaided or directly applied. The socialist himself will admit the superior productivity of capitalistic labor, but he demands the collective ownership and operation of capital. Labor as a measure of value is even more difficult to defend than labor as the source of all value. Marx assumes homogeneous units of labor, the number of which would determine the value of a coat or a book. This abstraction is impractical as a measure of the costs of production. The labor theory of value also minimizes the factor of demand, as influenced by the divergent desires of consumers. Of what value is the product of a given number of labor units, if no one has any desire for it? Marx merely assumes that the good is socially desirable and does not provide for varying degrees of utility.

The Marxian concept of overproduction needs considerable refinement. Although there can be misdirected production or general overproduction in the sense of more goods than can be disposed of at current prices, unqualified general overproduction is impossible in the sense that there are more goods produced than can be consumed. On the other

hand, the socialist is probably correct in his contention that greater equality of income would have a stabilizing effect on industry by increasing the effective demands of workers. Although this factor is of great importance, an explanation of crises must take other things into account, such as sound currency and changes in price levels.

Although a growing concentration in industry may be taking place, it does not follow that the middle class is disappearing or that society can be divided arbitrarily into two great hostile groups of exploiting capitalists and exploited proletariat. Today, the stock of many great corporations is held by thousands of small stockholders. Again, the laboring class is materially better off now than at the time when Karl Marx wrote "*Das Kapital*." Indeed, it is a debatable matter as to whether it is relatively worse off. In spite of the inadequacy of the wages of a large portion of our laboring population, the long-run tendency of real wages has been upward. Moreover, the growth of labor organizations and industrial representation has given the workers a greater participation in the control of industry.

**7. Utopian and Christian Socialism.**—Although the socialists are united in their indictment of modern capitalism and in their proposal to substitute collective ownership and operation of the instruments of production for individual enterprise and private-property rights, they differ widely among themselves as to other proposals and as to the methods by which the main objective of socialism is to be accomplished. Hence it will be necessary to outline some different schools of socialism.

Socialistic or communistic Utopias are as old as Plato's "*Republic*." The term "Utopian socialism," however, is generally restricted to a small group of writers who lived in the closing years of the eighteenth century and the opening years of the nineteenth century. These include Saint Simon, Fourier, and Proudhon in France, and Robert Owen in England. They dreamed of an ideal society in which voluntary cooperation would replace competition and coercion. This movement expressed itself in numerous communistic societies, such as New Harmony in Indiana and Brook Farm in New England.

As a reaction against the fantastic and atheistic character of some of the proposals of early Utopian socialists, Christian socialism emerged. It developed in England under the leadership of F. D. Maurice, J. M. Ludlow, and of Charles Kingsley, who expressed his convictions in the novel entitled "*Alton Locke*." It stressed the immoral, rather than the uneconomic, character of our present industrial system. It preached the gospel of the brotherhood of man and the dignity of labor. The first great socialist was He who enunciated the fundamental commandment that man should love his neighbor as himself. Christian socialism spent itself in humanitarian legislation and in the development of higher

ideals in industry. It sought to carry the Golden Rule into economic society.

**8. State Socialism and Fabian Socialism.**—State socialism has been regarded as the practical application of scientific or Marxian socialism. It may be said to date from the Congress of Eisenach in 1872. State socialism has sometimes been termed "socialism of the chair" because of the advocacy of its doctrines by certain German professors of economics. It magnifies the importance of the state as the fundamental social institution and proposes to extend governmental functions to industry. State socialism favors the governmental ownership and operation of basic industries. It has reflected itself also in protective labor legislation and social insurance. After an unsuccessful campaign against this "specter of Europe," Bismarck appropriated a number of the proposals of state socialism and put them into effect in Germany.

While scientific or Marxian socialism is revolutionary, Fabian socialism is evolutionary. The Fabian Society of London was organized in 1884 by a small group of English intellectuals. The name was derived from the Roman general, Fabius Cunctator, or the delayer. The abandonment of his waiting policy in the campaign against Hannibal, the Carthaginian general, brought disaster to the Roman republic. In a similar manner, popular education is regarded by Fabians as a necessary preparation for socialism. It would be unfortunate for it to come to pass before the great mass of citizens were ready for it. Hence a keen critic of modern industrial society characterized the Fabian socialists as those who pray, "Give us Socialism, Oh Lord, but not in our time."<sup>1</sup>

Fabian socialism teaches that socialism is to come by the gradual process of peaceful change, rather than by the method of bloody revolution. It points out that monopolies are becoming more and more prevalent and that governmental regulation is constantly widening. It is but a step from regulation to socialization, and Fabian socialists propose the gradual nationalization of all important industries. Thus socialism will come almost unconsciously.

Fabian socialists include such brilliant writers as H. G. Wells, Bernard Shaw, and Sidney and Beatrice Webb. Of recent years, however, Fabian socialism in England has declined in favor of guild socialism.

**9. Guild Socialism.**—Guild socialism is a still more recent cult of socialism. It may be regarded as a hybrid of socialistic theory and trade-union machinery. It developed in England, where G. D. H. Cole has been one of its chief expositors. It may be regarded as a reaction against the centralized bureaucracy of state socialism.

Guild socialists claim that the factory system has robbed the worker of his independence, and that the machine process has stifled the joy

<sup>1</sup>TAWNEY, R. H., "The Acquisitive Society."

of workmanship. Like John Ruskin and William Morris, they have idealized the craftsmanship of the medieval guilds and have revolted against the modern standardization of the worker and his product.

The guild socialist's cry is for self-government in industry, which, it is felt, cannot be accomplished under state socialism, which necessitates the autocratic control of industry by cabinet ministers or state departments of industry. Thus the state socialism of Germany has been regarded as stifling the initiative and creative efforts of the individual worker.

Guild socialism would use the administrative machinery of modern trade unions, but in some mysterious way it would breathe into them the spirit of the medieval craftsman. It is not a revolt against the machine process itself, however, such as Ruskin and Morris voiced in their writings, or as Ghandi preached in India.

Under guild socialism, foremen are to be elected by the workers, and there are to be shop committees and works councils. A national guild congress is to represent the workers of the various industries in some such way as the American Federation of Labor represents the different groups of workers in the United States. Professional and clerical groups, however, would also be represented. Thus there would be guilds of physicians and teachers, as well as guilds of carpenters and miners.

Guild socialism proposes an industrial as well as a territorial representation, and an economic as well as a political democracy. A dual concept of the state is involved.

**10. Syndicalism.**—Syndicalism is sometimes incorrectly classified as a radical type of socialism, because most syndicalists accept the socialistic indictment of capitalism and the leading theories of Karl Marx. However, they favor economic, rather than political, action. Syndicalism, as discussed in Chap. XIII, was regarded also as a revolutionary type of labor organization which favors industrial unions rather than trade unions, and direct action rather than peaceful collective bargaining. It seeks the overthrow of capitalism, rather than merely higher wages and improved working conditions.

Syndicalism proposes one big union of all workers and repudiates the present political state. It ignores the legislative activities of numerous socialistic groups which look toward a gradual nationalization of industry. Syndicalists advocate the general strike and condone the weapon of sabotage. They accept the Marxian principle of class struggle and eagerly await the economic revolution of all workers of the world.

The new industrial state is to function through local bodies of workers and their national representatives. Syndicalism differs from guild socialism in that it is revolutionary rather than evolutionary. Moreover, it does not propose industrial representation in addition to political

representation, but rather in lieu of it. Control is to be in the hands of the workers who are numerically the strongest group.

There is much in common among the Industrial Workers of the World in the United States, syndicalism in France and Italy, and Bolshevism in Russia.

**11. Sovietism and Bolshevism.**—In the strict sense of the word, sovietism is merely industrial representation, rather than political or territorial representation. If sovietism were fairly applied, occupational groups would be represented in an industrial parliament in proportion to their numerical strength. However, such has not been the case in Russia. Certain economic groups, such as the brain workers and the farmers, were either excluded or unfairly represented.

The word "Bolshevist" merely means "majority." Nevertheless, it happened in Russia that the Bolsheviks were not the majority, but rather a very active minority which succeeded in gaining control. It is often the case in revolutions that small groups succeed in dominating the entire situation.

The leader of the Russian Revolution, Nikolai Lenin, outlined four different stages in its progress: (1) capitalism, (2) dictatorship of the proletariat by revolution, (3) socialism, and (4) communism. Thus socialism was regarded as a mere step toward ultimate communism.

With the progress of the Russian Revolution, the large estates of the former landed aristocracy were divided among the peasants. The complete nationalization of land, however, was found to be impractical. But most basic industries were taken over by the state and managed by the Supreme Economic Council with its various production departments. There was a Commissariat of Labor which directed the labor supply and which was empowered to conscript workers. The unemployed received the wages of unskilled labor, and a system of public labor exchanges was organized. The state fixed the prices of goods produced and arranged a graduated scale of wages depending on skill and technical knowledge.

Because of the former embargo of foreign nations, Russia found it difficult for a long time to obtain capital and other necessities for the health and industry of the nation. Food for the industrial population of the cities was requisitioned of the agricultural workers who were paid in the worthless Russian currency. Great suffering resulted from the breakdown of existing systems of exchange and transportation. The chaotic condition of Russian industry finally resulted in a number of concessions to capitalism and a partial return of private enterprise.

The early struggles of the Bolsheviks were often cited as an illustration of the impossibility or undesirability of socialism. Later progress in that country led to equally extravagant claims concerning the success of that same movement. However, the Russian experiment neither proves nor disproves the success of socialism. Bolshevism is an experi-

ment in communism rather than one in socialism. Moreover, a revolutionary period is hardly a fair test of any movement. Social, educational, religious, and political changes were going on simultaneously with economic changes. It is doubtful how well a capitalistic government would have succeeded under the burden placed upon it. Demagogues competed with statesmen for control, and immediate expediency triumphed over ultimate aims. The open hostility of foreign nations colored the character of the Russian Revolution, just as a century before a similar situation had changed the character of the French Revolution. But in spite of foreign opposition and domestic disorder, the "temporary experiment" became a permanent condition. The Russian government finally succeeded in bringing order out of chaos at home and in securing recognition from most foreign governments, finally including that of the United States.

**12. International Progress of Socialism.**—A sketch of the development of socialism is difficult because of the existence of many different types and movements. The strength of socialism has been dissipated by the secession of still more radical elements, such as the communists and the syndicalists. The World War and the Russian Revolution divided socialists still further. A proper appraisal of their strength must include such an allied movement as that of the British Labor Party.

Indirect accomplishments of socialism are perhaps of more importance than its direct achievements. Thus socialism has often reflected itself as the voice of unrest against existing evils and in favor of socialistic laws, such as social insurance, progressive income and inheritance taxes, and the public ownership of utilities. Any appraisal of the strength of socialism must include not only its allied movements, but also its indirect influences.

At the present time, however, socialism is not merely the economic philosophy of a small group of visionary idealists, but the practical political conviction of a large number of statesmen and voters. There are one or more socialist parties in every important nation. Socialists of some type are now in control of the government in many important European countries.

Socialism has been an international, rather than a national, movement. Hence it calls upon the workers of all nations to stop capitalistic warfare and to unite in a new war against capitalism itself. The first such international appeal was the Communist Manifesto issued in 1848.

An International Workingmen's Association was held in 1864, which developed into what was known as the First International. It endured eight years but was finally disrupted by a schism between the Marxian socialists and the communist anarchists under the leadership of the Russian radical Bakunin.

The Second International was inaugurated in Paris in 1889 as a direct movement against militarism. The triumph of nationalism during the World War meant the temporary breakdown of this Second International which was not revived until after the cessation of hostilities.

The Third, or Communist, International was organized in Moscow in 1919. It is a direct reaction against political and evolutionary socialism. A product of Russian Bolshevism, it seeks to spread to other lands the system of soviets or workingmen's associations. Conservative socialists have refused to affiliate themselves with the Third International but have clung to the Second International.

**13. State Socialism in Europe.**—The earliest development of socialism took place in Germany, where the Social Democrats were the first important political party to organize on a collective platform. They professed adherence to Marxian principles and attempted to bring about state socialism. Expediency, however, dictated a resort to evolutionary, rather than revolutionary, progress. Practical political experience also resulted in a repudiation of violence and an espousal of constitutional methods.

Although Bismarck and Emperor William I attempted to stifle the socialist movement in Germany, it grew steadily in numbers and political importance. In spite of the government's refusal to reapportion seats in the Prussian Assembly in accordance with changes in population, the number of socialist deputies increased. At the close of the last century, the Social Democrat party throughout the German Empire polled two million votes, and just before the World War five million votes, which represented the largest popular vote of all parties.

Although the socialist deputies had previously refused to vote for military expenditures, they were submerged during the war. In Germany, as elsewhere, nationalism triumphed over socialism. A crisis was finally reached in the last year of the war, when the socialists directed the republican revolution of 1918. The late President Ebert, a conservative socialist, headed the new coalition government of Germany. The Social Democratic party remained in control of postwar Germany until the triumph of Nazism under Hitler.

Most of the new republics of Central Europe also came into existence under the control of socialists. A mild form of state socialism predominated until the rise of dictatorships. For illustration, in Czechoslovakia a progressive republican government has been in control since 1920, and the Social Democrats maintain a large portion of the total number of seats in the assembly.

However, under the leadership of Bela Kun, Hungary experienced six months of communism and sovietism. Although the nationalization of industry and agricultural land was effected, a conservative reaction soon triumphed.

Although socialists held the balance of power, communistic and nationalistic parties became more and more important. Powerful undercurrents of radicalism and communism continued to undermine the foundations of socialist governments, while nationalistic parties, such as Fascism in Italy and Naziism in Germany, attacked them by direct popular appeal. After a temporary triumph, socialism, as well as democracy and parliamentarianism, succumbed in many countries to nationalistic dictatorships. Such was the situation in Austria.

Socialism developed to such proportions in Italy that a nationalistic reaction in the form of Fascism occurred. The dictatorship of Mussolini perverted parliamentary government and violated the constitutional rights of freedom of speech and freedom of the press.

A military dictatorship existed also in Spain before the monarchy was overthrown and another new republic came into existence.

The socialist vote in France increased from the formation of the Third Republic in 1870 to the outbreak of the World War in 1914. Numerous socialists held cabinet positions in the various coalition governments. During the World War, nationalism triumphed over socialism in France as it did in Germany. After the armistice, however, socialists increased in power, and soon they were in control of the Chamber of Deputies.

In France, there are a number of socialistic parties, which range all the way from conservative and constitutional state socialism to radical syndicalism. Syndicalists, communists, and other radical groups have been the source of considerable embarrassment to many French ministries which have risen and fallen with bewildering rapidity.

The Socialist party has been very strong in Belgium. There are strong Socialist parties in other small countries of Europe, such as Holland and the nations of Scandinavia and the Balkans.

**14. British Labor Party.**—The British Labor party is a complex of trade-union machinery and socialistic principles. Its policy is opportunistic, but constitutional. It savors more of Fabian and guild socialism than of Marxian or state socialism. The program of the British Labor party includes the nationalization of the railroads, mines, and other large industries, as well as the socialization of extensive private holdings of land. Strict governmental regulation is proposed for what industries are left to individual enterprise. The reduction of economic inequality is sought through progressive income and inheritance taxes. Strong belief in social insurance is maintained and opposition is expressed to any reduction in its scopes and benefits.

Membership in British trade unions, as shown in Chap. XIII, is much greater in proportion to total population or total number of workers than was membership in American trade unions. Again, British trade unionism, unlike American trade unionism, has expressed itself politically.



The British Labor party has long been a powerful factor in national politics. During the last generation, it grew more rapidly and more consistently than any other party in Great Britain or in any other great democracy. By 1924, the British Labor party had become the strongest single party. Consequently, it was called upon to form the ministry. Ramsay MacDonald, as leader of the Labor party, became prime minister of England, which office he held almost continuously for the following decade.

**15. Socialism in United States.**—The majority of the American labor group have been opposed to the formation of a separate political party. At the present time, however, there is a well-organized Socialist party in the United States. The late Eugene V. Debs, when a socialist candidate for President, received almost a million votes in one of the presidential elections. Norman Thomas, his successor as leader of the American Socialist party, received 267,000 votes in the presidential election of 1928, at the peak of prosperity, and 885,000 votes in 1932, in the depths of depression.

Although the Socialist party in the United States has not grown to the power and influence which it now enjoys in certain European countries, American socialists have been sufficiently strong in certain communities to elect representatives to their state legislatures. However, socialist assemblymen elected to the New York legislature shortly after the war were, at first, refused admission by other members, on the mere ground that they were socialists. This action was a direct challenge to representative government in America. In Milwaukee, a socialist mayor has been elected several times, and a socialist Congressman, the late Victor Berger, was sent frequently to the national Congress.

**16. Criticism of Socialism.**—Students of economic problems may agree with the socialists' indictment of capitalism without accepting socialism as the best way out of the situation. Moreover, they may accept the ideals of socialism without believing that socialism will successfully bring them to pass. One must admit the economic and human wastes of the present industrial system. One must admire the attempt to substitute social service for the profits motive. It is necessary, however, to raise constantly the practical question as to whether such a scheme will work.

Although socialism may gradually improve human nature, we live in an acquisitive society. Self-interest is an inherent force and the profits motive a powerful incentive. It is possible and desirable, however, that our inherent or acquired desire to win some social recognition can be expressed in some other way than in the mere accumulation of wealth. It is doubtful, however, if individuals will exert themselves so strenuously for the good of society as for their own individual welfare and that of their immediate group.

Socialists reply that they do not propose to eliminate the material rewards of industry, but merely to reduce them. Moreover, social prestige through economic advancement is as great an incentive as material rewards. Although there might be little differences in wages, most individuals would prefer to be executives, rather than common laborers. Hence they will exert themselves to greater efforts because of this desire for leadership.

Not only is the economic motive toward production under socialism rather weak, but also there are obvious administrative objections. As just indicated, the determination of wages and prices would be a difficult task in the absence of competition. Moreover, the determination of the course of production would be equally difficult. It would involve a greater standardization of human wants than exists at present.

Although distasteful to certain individuals who glory in a great variety of economic goods, greater standardization would produce an enormous economy of material and effort. Again, it need not be pushed to the extreme of a complete, drab uniformity. Moreover, it is quite likely that collective consumption would be increased at the expense of individual consumption. Public art galleries would supplant private collections, and public parks would replace private estates.

If production were no longer in the hands of individual enterprisers, who seek to make profits by anticipating the wants of consumers and by meeting them satisfactorily, who would be empowered to direct industry and to shape the course of economic production? These powers and duties would probably be those of governmental officers and bureaus. Would not the politician dominate the technical expert and determine vital policies? Has our trial of governmental operation of utilities and the railroads been sufficiently satisfactory to warrant an extension of this principle?

The elimination of capitalism would remove also its function of selecting leaders. Who would be directors, who clerks, and who ditch diggers? It is doubtful if psychological tests, guidance programs, vocational training, and educational measurements have progressed sufficiently far to develop and to select able leaders in the absence of economic competition.

On the other hand, it is contended that socialism would not eliminate competition but merely change its character. It would substitute political competition, a less desirable type, for economic competition, a more desirable type. Proof of the superiority of economic competition over political competition is found in the assumption that the average individual considers more carefully how he spends his money than he does how he casts his vote.

It is further contended that capitalism is democratic as well as efficient. Prejudice does not influence one's spending as much as one's

voting. Our so-called "political democracy" is neither so democratic nor so efficient as is capitalism. Nevertheless, socialism would substitute the successful politician for the successful business man as the controller of our economic destinies.<sup>1</sup>

Admitting the ideals of equality of opportunity and acquisition according to productivity, how would these concepts be defined and measured? The absence of market value would make as difficult the scaling of rewards as the absence of competition would make the selection of leaders. How would productivity be determined and how would human costs be ascertained? A rough approximation, however, might be better than our present system in which hours are longest and wages lowest in the most tiresome and disagreeable tasks. Socialism might provide shorter hours in the more fatiguing tasks and might give higher rewards for those jobs which are least desired but most necessary.

It is contended that socialism would prevent the payment of interest on capital, because of its elimination of property incomes. As capital is the result of saving and as saving involves abstinence, the abolition of interest as a form of property income would decrease savings and prevent the further accumulation of capital. The socialist replies that capital as well as land would be owned collectively, and that saving would be done collectively, rather than individually. The state would produce capital goods as well as consumption goods. It would systematically set aside a replacement fund for industry.

**17. Summary.**—Although there are many different kinds of socialism, their common characteristic is the collective ownership and operation of the instruments of production rather than reliance on individual enterprise and competition. Considerable change in the institution of private property is involved, for the inheritance of large estates and the existence of property, rather than service, incomes would be prevented. Socialism is not communism, although certain thinkers have regarded the former as a step toward the latter. Socialism is not anarchism, for the former magnifies the state and the latter seeks to eliminate it.

The most complete statement of the theories of socialism is to be found in "*Das Kapital*," by Karl Marx. He developed the materialistic interpretation of history, belief in the concentration of industry and the elimination of the middle class, theory of overproduction as the cause of industrial crises, doctrine of class struggle and exploitation of the proletariat, and the labor theory of value. Marxian socialism is known also as scientific socialism. It is deterministic, for it regards the revolution of the workers and the ultimate triumph of communism as inevitable.

Fabian socialism is evolutionary, rather than revolutionary. State socialism seeks the government operation of industry and proposes the nationalization, rather than the regulation, of basic industries. Guild

<sup>1</sup> CARVER, T. N., "Essays in Social Justice."

socialism is a reaction against the bureaucracy of state socialism and proposes self-government in industry. It is an idealization of trade unionism and seeks the development of works councils and national guild congresses of the workers.

Syndicalism is economic, rather than political, and it proposes direct action of the workers, rather than legislative progress toward the nationalization of industries.

Socialists criticize the present economic system on numerous grounds. They contend that competition is wasteful. Large-scale production is more efficient than small-scale production and results in many savings in production and marketing. There seems to be a natural trend in industry toward the final step of monopoly. Therefore, socialists propose the substitution of collective monopolies for private monopolies. The profits motive is selfish and results in numerous economic maladjustments under our present system of individual enterprise. There are human wastes, as well as material wastes, which would be eliminated if production were carried on in the interests of social welfare. Moreover, glaring inequalities in income would be impossible and a greater equality of opportunity would be permitted.

It must be admitted that the socialists' indictment of the present economic system is sound. It does not follow, however, that socialism would remedy those faults which it so keenly discloses. Nor does it follow that we should scrap the present economic system and build anew, rather than strive merely to eliminate existing maladjustments. The institution of private property has been an important factor in economic progress, and the sordid profits motive has stimulated individual enterprise to greater economic production. Whether the social-service motive would be as effective is doubtful. Again, numerous administrative problems would confront the new socialist state, such as the wise selection of leaders, the determination of wages and prices, and the direction of the productive forces of industrial society. For these and other reasons, many individuals who accept the ideals of socialism reject socialism as a practical solution of our economic problems. They are socialistic, but not socialists. Many of the greatest results of socialism have been indirect rather than direct.

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### Questions for Discussion

1. What do you understand by the term socialism?
2. In what ways might one be socialistic without being a socialist?
3. Differentiate between (a) socialism and anarchism, (b) socialism and communism, and (c) socialism and syndicalism.
4. State five tenets of Karl Marx.
5. Criticize each of these in turn.
6. Upon what grounds do the socialists criticize modern capitalism?
7. Which of these criticisms seem sound to you and why?
8. If one accepts the socialist's indictment of modern capitalism must one also accept socialism? Why or why not?
9. Contrast revolutionary with evolutionary socialism.
10. Outline some of the leading schools of socialism.
11. Contrast state socialism with guild socialism.
12. What changes would guild socialism involve in the nature of the state?
13. Distinguish between the ideals of socialism and the practical possibilities of socialism.
14. What administrative difficulties do you see in the way of socialism?
15. Do you believe that the profits motive can be eliminated? Why or why not? If so, how?
16. Should competition be eliminated or regulated? Why? How?
17. Distinguish between regulation and nationalization.

### Topics for Investigation

1. The progress of socialism in Germany before 1914.
2. Socialism in Germany since 1918.
3. Postwar development of socialism in Austria.
4. Socialism and nationalism before and during the World War.
5. Socialism and nationalism after the War.
6. Struggle between socialists and communists.
7. Socialism in France.
8. Syndicalism in France.
9. Socialism and Fascism in Italy.
10. Socialism and Naziism in Germany.
11. Socialism and international warfare.
12. Socialism and the British Labor party.
13. Bolshevism and private property.
14. Concessions to capitalism in Russia.
15. The socialist movement in the United States.
16. The First, Second, and Third Internationals.

## CHAPTER XXI

### INDUSTRIAL AND SOCIAL PROGRESS

#### THE ELIMINATION OF MALADJUSTMENTS

1. **Utopias and Panaceas.**—One of the earliest and most famous of all Utopian schemes was Plato's "Republic," in which he pictured an ideal city state. It was communistic, cooperative, and based on an inherent division of labor. Toward the close of the Middle Ages, William Langland wrote "Vision of Piers Plowman," an idealization of the England of his day in which many existing wrongs were righted. One of the greatest of all Utopias, and the one which has given its name to all similar plans, was the "Utopia" of Sir Thomas More. It appeared about 1516 and sharply criticized many of the evils of Tudor England. In More's "Utopia" were no dynastic wars, no leisure class, and no unemployment. The city beautiful contained public schools, free hospitals, and reformatories for criminals. A little later Francis Bacon published the "New Atlantis," in which his temple of science was a distinguishing feature. In it were the statues of scientists, inventors, and discoverers, rather than men of war. Among the more modern Utopias are Bellamy's "Looking Backward" and William Morris's "News from Nowhere."

Each age has dreamed its own Utopia but has failed to reach it. Nevertheless, the ideals of one age have often become the normal conditions of a later period. A chronological survey of Utopias will show both a raising of ideals and a progression toward former ideals. The advance in the ideals themselves is as significant as progress toward former ideals. Discouragement may be due to the fact that social ideals are advancing as rapidly as social development toward these ideals. Hence progress can be made without its being realized or appreciated.

Social unrest, as reflected in the formulation of new ideals into fantastic Utopias, is a sign of progress, rather than an indication of the decadence of the times. Stagnation is the fate of those lands whose old men no longer see visions and whose young men are unable to dream dreams. A progressive society is a critical society and one which is characterized by advancing ideals of social justice. Social unrest will always exist in a progressive society, but an unprogressive society will suffer from maladjustments of which it is not conscious. Self-satisfaction is as characteristic of a static society as of a hopeless individual.

No society will ever reach its Utopia; nor will any earthly Utopia endure in a permanent and unchanging fashion. Utopias merely reflect

the civilizations which give them birth. On the inside of his shield, the author traces the maladjustments of his own day, which he then hammers into beautiful pictures of the ideal Utopia which appears on the outside surface.

An economic panacea is something which will quickly and painlessly cure all the ills of industrial society. Such a concept is as unscientific as the fountain of youth or the philosopher's stone which would turn base metals into pure gold. A panacea for all maladjustments of economic society is as imaginary as an economic Utopia, but less inspiring. It is as dangerous as the quack doctor's nostrums and cure-alls, which divert sick individuals from competent physicians making careful diagnoses and prescribing specific treatments for particular ailments.

Socialism may present certain desirable ideals and single tax may give us some useful suggestions, but neither socialism nor single tax will bring us to an economic millennium. To advocate any scheme of social reform as a general panacea for all economic evils, and as a perfect plan which will endure indefinitely in its original inspired form is not only unscientific but also unfair to that particular economic creed. Economic progress is made by the slow and steady elimination of economic maladjustments, rather than by the sudden regeneration of society through some revolutionary economic gospel.

**2. Economic Maladjustments and the Process of Adjustment.**—The process of adjustment may be seen in the forces of nature. During the course of centuries, the earth's crust has been lifted up and a mountain barrier formed across the pathway of a river. Equally slowly and steadily, however, the stream proceeds to cut a new and lower bed for its passage to the sea. Witness the natural geological adjustment in the physical environment at the Delaware Water Gap or at Niagara Falls.

Social maladjustments, like the rocks in the former river bed, are obstacles in the path of society, boulders through which the stream of social progress must cut its way. They are the results of a failure of society to bring itself into harmony promptly and properly to new social forces or to a new economic environment.

Social maladjustments are explicable in static societies, where the hard rocks of tradition resist erosion. It is not difficult to understand why, in spite of rich natural resources, the specter of poverty stalks through the land and the death rate rises to enormous proportions. The folkways of ancient China, for illustration, balked for a long time her social and economic development. In the United States, however, there is less reason for the persistence of maladjustments. America is a new country, alive with modern ideas, and less hampered by the binding ties of inertia and tradition. It is rather startling, therefore, to find, in a land of popular education and democratic ideals, a society that fails to adjust its social organization into conformity with its economic progress.



The industrial revolution has so transformed our economic life that it has made social adjustment imperative. But a number of social maladjustments have continued in spite of this transformation of our industrial environment. Poverty still exists in a land of riches, and women and children continue to labor for long hours in unsanitary factories. Housing and health conditions do not conform to modern scientific knowledge or to present ideals. Men are still carelessly at work in dangerous trades, and every year an enormous toll of human lives is taken by needless industrial accidents. Friction between labor and capital is not yet peacefully and democratically adjusted but flames into strikes and other industrial conflicts. Our survey of many of the social problems of industry attests the necessity of further, more rapid, and more intelligent social adjustment.

Adjustment consists of the removal by society of numerous obstacles in the path of progress. Although they may have been suited to an older environment, they are out of harmony with present conditions. Society must, therefore, modify its economic organization and social institutions, if full advantage is to be taken of new developments in industry. For example, traditions of hard, continuous toil, of inadequate wages, of bad housing conditions, and of unhealthy working conditions have come down to us from an age when such ideas were the outgrowth of meager physical resources, a lack of scientific knowledge, or the absence of power machinery. But today, a six-hour working day, comfortable standards of living, and good working conditions are attainable.

Our problem in this book has been to trace a number of economic maladjustments and to indicate certain ways out of the dilemma. The student has been free to make his own choice of the various suggested solutions, each of which has its own advantages and disadvantages.

These economic maladjustments have been attacked from many different angles, but among the most important approaches are that of the state through legislation, that of organized labor through collective bargaining, and that of individual employers through various plans of economic betterment. These different avenues of economic adjustment and social progress are similar, in that they are evolutionary, rather than revolutionary. On the other hand, the approach of certain critical schools of thought, such as syndicalism and some radical forms of socialism, is the method of revolution. The overthrow rather than the improvement of the present industrial system is sought. These various approaches were represented diagrammatically by a triangle circumscribed by a circle in Chart 1 (p. 15).

**3. Active and Passive Adaptation.**—Adjustment may be either active or passive, and the process of adaptation may be either conscious or unconscious. Geological adjustment, as just illustrated by the river cutting a new stream bed, is, of course, entirely passive and unconscious.

Again, biological evolution among the lower forms of life is largely passive and unconscious. The force of natural selection preserves favorable variations and eliminates those which are unfavorable. In this way, evolution makes for the survival of the fittest.

Human adaptation is conscious, and social adjustment is active and purposive. Inherent intelligence and acquired knowledge make it possible for human beings better to adapt themselves to their environment and thus to avoid extinction. Moreover, man is able, within limits, to change his environment into conformity with his own needs. Rational changes in our economic environment make it gratify more completely our economic wants.

Active adaptation involves improved human relationships within a group and among groups, as well as improved relationships to the physical environment. Hence social objectives and ideals transcend mere economic adjustment.

The constant elimination of maladjustments is the aim and the test of a progressive society. There never will be a time, however, when no maladjustments will exist. Society is dynamic and the continuity of change means that the process of adjustment must be continuous. The elimination of a serious maladjustment means merely that attention will then be focused on a less serious one or on a new maladjustment which has been brought about by different conditions. Our economic environment is continually changing, and standards of social justice are constantly being altered and perhaps raised.

However, social objectives change from time to time. Moreover, at any given time there may not be a complete agreement as to what constitutes this body of social objectives. Ideals are subjective, rather than objective. Again, social and economic ideals are not static. Our ideals may be advancing at the same time that society is progressing toward these ideals. This fact often obscures the existence of progress, just as a change in group objectives alters the direction of social striving.

**4. Evolution and Progress.**—Evolution and progress are different concepts, because the latter term, unlike the former, implies purposive effort and consciousness of the process. Although evolution results in the creation of superior species, the process is passive, rather than active, adaptation. It is only after intelligence has been evolved, and human reason itself becomes a factor in further development, that the term "progress" should be used. The concept "evolution" originated in biology, but the term "progress" is essentially one of social science.

The method of evolution is that of natural selection. Nature is very prodigal, especially with the lower forms of life. There is a bitter struggle for existence and only the fittest survive. No two individuals of a given species are exactly alike, and the force of natural selection determines the survival of that variation which is best suited to its

particular environment. The unfit or ill adapted perish, and the factor of heredity tends to preserve favorable traits.

Progress is made by artificial, rather than natural, selection. Again, human intelligence changes the situation completely by substituting active for passive adaptation. Man is greatly influenced by his environment, but he is able to change it to a marked degree. For illustration, the glacial epoch created new species of plants and animals by the process of natural selection. Man, however, was an adaptable animal. He built caves, invented clothing, and discovered fire. He changed his immediate environment and survived. Evolution is the story of passive adaptation or extinction. Progress is the story of active adaptation to avoid extinction.

It was formerly thought that the white man could not live in the tropics, but the recent sanitary projects, such as those carried out in the Panama Canal Zone, have conquered these areas by the weapons of modern science. They have been made safe for the civilizations of temperate nations. Irrigation projects and mountain tunnels are additional illustrations of active adaptation. By man's conquest of nature we do not mean that he has succeeded in changing natural laws, like Ajax defying the lightning, but rather that he has come to understand the forces of nature and is able to use them constructively instead of letting them spend themselves in some destructive fashion.

Finally, progress involves ethical ideals and subjective concepts of social welfare, although they have differed greatly from group to group and from time to time. Evolution, however, is unmoral and has no ethical concepts. Superiority means merely fitness to survive under a given set of conditions.

**5. Various Interpretations of Progress.**—Some writers deny the existence of progress. The so-called "progress" of the arts has resulted merely in more disastrous wars. Witness the terrible destruction of life and wealth during the World War among so-called "progressive," "civilized," and "Christian" nations of Europe and America.

Has the industrial revolution done more than merely increase the wealth of the world? Has it expanded human happiness or raised social ideals? Thus John Ruskin questioned the crass materialism of modern industrialism and criticized the lack of vision of contemporary economists. He sought to breathe into political economy the spiritual aromas of beauty and service. Not more goods but better goods, not mere wealth but nobler men, were his ideals of industry. Social, rather than economic, values were stressed in his gospel of wealth. Judged by such standards, the period introduced by the industrial revolution was one of retrogression rather than one of progress.

Many critics neither affirm nor deny progress. They contend that its existence is impossible to determine because of the absence of objective

tests or commonly accepted standards. Change is obvious, but progress is uncertain.

Progress is more than mere change, however, and a dynamic society is not necessarily a progressive one. Progress implies change in the direction of social welfare. Such a definition of progress, however, is of little value, if we are unable to discover any objective tests or commonly accepted standards of social welfare.

All concepts of welfare are subjective, ephemeral, and relative. The Greeks of Periclean Athens might have interpreted social welfare in terms of aesthetic culture, the Roman statesmen in terms of an expansion of the *pax Romana*, and the medieval ascetic in terms of spiritual devotion. Common agreement as to what constitutes social welfare is as impossible as universal accord on the nature and sources of individual happiness.

Although universal agreement as to the nature of progress is impossible, two concepts emerge out of such a discussion, *viz.*, the social ideal of group survival and the economic ideal of increased prosperity. In Chap. I was noted Carver's definition of a scientific morality, *viz.*, that code of conduct which makes for group longevity. Social survival is surely essential to progress, but is it the only test of social progress? Again, increased prosperity is part of economic progress, but it is not the whole concept. Although we may restrict our discussion of progress merely to economic progress, we react from accepting increased material prosperity as our sole test even of economic progress.

**6. Methods of Progress.**—There are as many interpretations of methods of progress as there are of its nature. One group of thinkers may be termed "evolutionists." They look at social progress from the standpoint of natural selection and social adaptation. To them, progress is an unconscious and undirected process in which the survival of the fittest is the determining factor. Hence extreme evolutionists omit all moral implications from their mechanistic interpretation.

Progress is viewed by some writers as the result of a favorable geographical environment, endowed with a temperate climate, sufficient rainfall, and abundant natural resources. These geographical determinists would give us an extreme, or biased, economic interpretation of history.

Other interpreters of progress stress heredity, rather than environment, as the dominant factor. According to them, certain races, representing superior biological stocks, have made unusual contributions to civilization which have made possible the general, but uneven, progress of the world through their military or peaceful conquests of backward races. Modern anthropologists, however, challenge this tradition of racial superiority and inferiority, although obvious physical differences exist.

Within a group, individual differences also are discernible. Individuals possessed of superior physical and mental qualities, which are inherent rather than acquired, are enabled to transmit them. The conscious improvement of the biologic stock of succeeding generations affords some basis of future social progress. Such prophets of progress are known as "eugenists." They stress not only the importance of the biological factor, but also the possibility of its social control by the process of artificial selection.

Other writers have interpreted progress in terms of dominant men. Thus Emerson in "Representative Man" went so far as to assert that an institution was but the lengthened shadow of a single individual. In his "Heroes and Hero Worship," Carlyle also has expounded the "great-man theory" of history and progress. Although this position may be carried too far, it cannot be denied that economic progress requires effective leadership. It is well to keep in mind the importance of the individual in determining the course of human progress. It is beyond question that the personal element is a vital factor in the attainment of both economic progress and social welfare. Although every individual is influenced by his environment, he has some power to modify it and to rise above it.

**7. Factors in Progress.**—Heredity and environment are the dual bases of all social phenomena. They are the two axes on which social problems are plotted. They are as omnipresent to the sociologist as are the forces of supply and demand to the economist. Hence our concluding chapter on social and industrial progress brings us back to these eternal verities.

Both heredity and environment may be physical or social. Our physical heredity is biologic and inherent, but our social heredity is institutional and acquired. Our physical environment is geographic, but our social environment is institutional.

Economic progress is conditioned by (1) an improvement in the inherent stock of the group; (2) a superior adjustment to our physical environment; (3) an improvement in our social organization and institutions; and (4) increased, improved and more highly socialized education.

**8. Heredity and Eugenics.**—Although heredity is the biological factor which is responsible for the persistence of racial traits and family characteristics, all individual variations are not hereditary. Acquired characteristics are those achieved in the lifetime of the individual. Since they are not inherent in the germ cell, they are not transmissible. It is this biological fact which offers hope to those groups in society which are victims of unfortunate environments. It prevents society from retrograding and keeps the "submerged tenth" of the slums from giving birth to progressively worse offspring.

It is obvious that the son of a man who lost an arm in an explosion will be born with two arms, and that the son of a Greek professor will be forced to acquire his knowledge of the classics by the same laborious study. Weak eyes may be inherited as well as a tendency toward literary pursuits. But the latter is more often the result of the social environment of the child than of its physical heredity. Tuberculosis is a bacillus disease which is not hereditary, as are weak lungs which make for a susceptibility to tuberculosis. Insanity also is acquired, although a neurotic tendency may be inherited. Feeble-mindedness, on the contrary, is an inherent trait, which will be passed on from generation to generation, as long as feeble-minded individuals are permitted to propagate.

Can we consciously and constantly improve the biological stock of the group in a manner similar to that in which we are seeking to improve its physical and social environment? The answer of modern science is in the affirmative. For generations, man has been breeding horses, dogs, and cattle, and thus constantly improving their stock. It is only recently, however, that he has thought of himself as a great biological experiment.

Under the leadership of such men as Sir Francis Galton, the science of eugenics has come into being. The word "eugenics" is derived from the Greek and means *well born*.

The eugenic factor in economic progress cannot be denied, although economists generally leave its analysis to sociologists. A progressive society will constantly seek to improve its biological heredity by an elimination of degenerate strains. The heights to which any group can climb are conditioned by the caliber of the men and women in that group. If we can give the children of tomorrow a good physical heredity, it will be their greatest asset in industrial progress. There now seems to be dawning a newer and higher concept of family life which places the biologic welfare of children even before the mutual happiness of husband and wife.

The science of eugenics has come into some disrepute because of the extreme measures which its most ardent enthusiasts advocated. These radical and often ill-considered suggestions, however, should not discredit the entire movement. It must be remembered that there are both positive and negative eugenics. It is idle to dream of a scientific breeding of supermen. Human beings cannot be bred like horses and cattle for some specific characteristics. Individual men and women will continue to fall in love and to marry accordingly. It is even questionable how far eugenic restrictions should be placed around the marriage of the great majority of our population. For normal people, eugenic reform can be carried on better by a campaign of education than by arbitrary legal restrictions.

For subnormal groups, however, more severe measures are necessary, if degenerate stocks are ever going to be eliminated from human society. Social debtor groups, including defectives, delinquents, and dependents, impede economic progress. In the interest of future society it is imperative that reproduction on the part of those with serious hereditary defects should be prevented. Although other measures have been suggested, it is probably wisest to incarcerate degenerates, feeble-minded, and similar groups in specialized institutions where they will have permanent custodial care. By a gradual weeding out of these degenerate biological strains in society, social progress will be greatly accelerated. The economic costs of institutional care for those having serious, anti-social, hereditary traits will fall upon the present generation, but it will pay enormous dividends to posterity. In the long run, it will be economical, as well as socially desirable.

**9. Role of Education in Economic Progress.**—In addition to an improvement in the physical heredity and the social and economic environments of the group, there is a third method of progress which may be termed the “educational.”

From an individual point of view, a liberal education includes the right to the fullest possible development of one's inherent ability. The ideal education is that which permits each individual to develop along the lines of his peculiar abilities and to the limits of his native capacity. From a social point of view, education includes the transmission of acquired knowledge from one generation to another with the constant process of variation, selection, invention, and improvement.

Intelligence is inherent, but knowledge is acquired. As acquired knowledge is not hereditary; it is imperative that the intellectual product of past ages be passed on to future generations. Civilization is a cumulative process and includes the conserving of past knowledge, as well as the discovery of new information and methods. This process should go on with accelerated speed, for the discovery of new knowledge makes easier the process of further discovery. The acquisition of knowledge during prehistoric times was a slow process, but modern scientific investigation has succeeded the former haphazard trial and error method.

Education involves more than an improved technology. Although civilization rests on a very material basis, social welfare consists of more things than mere physical well-being. Man does not live by bread alone, and economic progress must be accompanied by commensurate cultural advances. It must not be forgotten that the finest flowers of past civilizations were their art, literature, and spiritual ideals.

Education involves the wider dissemination of existing knowledge, as well as the discovery of new truth. Economic progress depends upon both methods.

Lester F. Ward, the pioneer American sociologist, pleaded for the democratization of knowledge, for he believed human ability to be widespread. Genius is rare, but it crops out in humble and unexpected places. It is not necessarily the product of Norman blood. Indeed, recent investigation has shown that some so-called "blue blood" does not represent the best biological heredity. The importance of heredity is not discounted, but rather the assumption of biological superiority upon the part of privileged races and classes is denied. The absence of democratic school systems in earlier centuries was responsible for many a "mute, inglorious Milton" or a "Cromwell guiltless of his country's blood." Educational equality of opportunity did not then exist.

The schools of tomorrow must educate leaders, as well as efficient workers and loyal citizens. The future progress of the labor movement is conditioned by intelligent and unselfish leadership. Knowledge and service must go hand in hand if the ideals of economic progress and social welfare are to become living realities.

**10. Economic Progress Illustrated by Control over the Physical Environment.**—Man's first adaptations to the physical environment were more accidental than conscious, although a useful device was imitated and remembered. As compared with the achievements of the lower animals, such as the nest building of birds, human adaptations were less instinctive and more a matter of reason. Finding that a tree which had fallen across a stream provided an excellent method of crossing, primitive man imitated in other places and thus invented his first bridge.

The great purposive inventions of today rest upon the more or less accidental discoveries of prehistoric times. The modern steam engine would have been impossible without the fortunate discovery of fire some time in the long-forgotten past and its conscious utilization throughout the centuries of recorded history. The twentieth century skyscraper is but the latest stage in the evolution of housing which began centuries ago when a half-naked savage built a rude shelter for protection against the cold, the rain, and the wild animals.

Modern technology is the latest chapter in the growth of acquired knowledge. It may be defined as the application of the scientific method to the problems of economic production. Modern technology as expressed in the inventions of the industrial revolution was the fruition of the intellectual freedom and the birth of science which took place about the time of the Renaissance. Man's control over the forces of nature increased enormously and active adaptation was no longer haphazard. Time and space were conquered by such inventions as the railroad and the telegraph. The new power machinery produced in a few minutes what thousands of craftsmen had formerly taken months to do.

Truly, the industrial revolution has created a new world, the wonders of which could never have been imagined by the fathers of the American



Revolution. When Benjamin Franklin flew his famous kite, he little dreamed of the wonderful possibilities of electricity. Today, electricity bids fair to displace the steam engine. One is dazzled when he attempts to project into the future the past accomplishments of applied science. If physical adaptation or control over the forces of nature be any test of economic progress, there is surely proof in abundance not only of the fact of economic progress, but also of its accelerated rate.

**11. Economic Progress and the Social Environment.**—Active adaptation can be witnessed not only in man's relation to his physical environment, but also in relation to his social environment. Progress includes not only increased and improved production, but also increased cooperation and improved social control. The ability to live harmoniously with one's fellows is as important as the ability to live in an improved and controlled physical environment. Thus the development of a better social organization is as vital as the process of mechanical inventions and discoveries. Social progress can be traced in the raising of our ideals and in the improving of our attitudes, just as economic progress can be seen in our technological advances.

Social adjustment, however, is often slower than economic adaptation. Obsolete machinery is scrapped and antiquated methods of production disappear before improved processes. Obsolete institutions and antiquated attitudes of mind, however, continue to be cherished and fostered. Old ideas may be sound, but they should not be regarded as valid merely because of their antiquity. Physical adaptation has apparently been easier than mental adaptation, as more progress has been made in the control of the physical environment than of the social environment.

**12. Institutionalization and Social Rigidity.**—The atmosphere of custom into which every child is born influences him as much as does his physical environment. Tradition envelops all of us like a cloud, unconsciously determining almost everything that we do, from the language we speak to the dress we wear. Individuality is limited and represents but a small variation from the customs of the group. We take almost everything as we find it, accepting group traditions from baseball to democracy. As the child learns the mother tongue, so he imbibes the customs and moral ideas of his group, regarding them, finally, as his own.

Each group has its own collection of social and moral ideas which it believes to be the best and the truest. Independence of thought is both relative and rare. Tolerance and sympathy with those of different ideas and ideals have developed only recently and partially. Today, intellectual liberty is still localized within a relatively few democratic countries. Even there, the mere epithet of "Bolshevistic" or "socialistic" is still sufficient to disrupt the serious discussion of any momentous change. Economic reform faces the resistances of group prejudice and social inertia.

**13. Breaking the Cake of Custom.**—Although the “cake of custom” is hard to break, it may be shattered either by forces from within or by forces from without, *i.e.*, by internal revolution or by foreign conquest. In the past, the method of conquest has been the more common.

Internal revolutions are sudden and sweeping changes in habits of thought and social attitudes. It is difficult, however, to make fundamental changes in social institutions. Thus Peter the Great found trouble in westernizing Russia and the French Revolution resulted in frightful carnage. In our own day, the Russian Revolution met with tremendous active opposition and passive resistance, as it blew to bits crystallized ideas, cherished traditions, and vested interests of past centuries. Similarly, modern China is a nation of four hundred millions attempting to adjust themselves to a new economic and social environment. Ancient custom is wrestling with modern science for control.

By the bloody path of war and revolution, history has progressed, and modern man has become heir to the culture of other ages and civilizations. Such knowledge should rid him of narrow provincialism and free him from the bonds of superstition and ignorant worship of tradition.

**14. Social Control of Industry.**—Social control is the influence of group mind over the thoughts and actions of individuals within society. It should be more conscious than imitation, more purposive than tradition, and more rational than institutionalism. The nature, types, and agencies of social control were outlined in Chap. II.

The aim of social control is the development of public opinion which is capable of preserving order and yet maintaining liberty. It seeks to build up a social mind which is rigid enough to withstand the alluring suggestions of the demagogue and yet plastic enough to resist complete institutionalization.

Rational social control can be developed only through a constructive program of education, which creates a critical attitude of mind and at the same time a feeling of social responsibility. An intelligent public opinion which soberly discusses civic problems of the day is the sole hope of democracy.

A deliberative assembly represents the most advanced form of social mind, just as the mob constitutes the very lowest form of association. A society, free but incapable of self-control, brought about the excesses of the Reign of Terror. On the other hand, a society kept in order by the iron hand of autocracy has its Bastille or its Siberia.

**15. Lag of Social Adaptation behind Economic Changes.**—The problem before civilization today is whether we can make a social adaptation which will be commensurate with our recent economic progress. If effective social control is not soon developed, modern industrial civilization will be similar to a high-powered automobile racing rapidly through the streets, but with no driver sitting at the wheel to direct its

course. The world-wide specialization which the machine process involves necessitates increased cooperation and the highest possible social morality. The meat packer, the milkman, and the locomotive engineer hold in their hands the lives of thousands of other individuals.

The brotherhood of all men, both within a nation and among nations, is no longer a vague ideal; it has now become an economic necessity. Otherwise, modern technology, the machine process, and specialization will have created an industrial Frankenstein monster which will, in turn, destroy its own creators. How to make our social organization and our social morality keep pace with our economic progress, as represented by our control over the physical environment, is the riddle of the sphinx, not to answer which means annihilation.

**16. Sin and Society.**—Social morality is essential to economic interdependence. Effective and rational forms of social control are necessitated by the complex, but impersonal, character of modern industrial civilization. Democracy itself is threatened by captains of industry who put profits before human lives, and by corrupt inspectors who fail to report illegal working conditions, the lack of adequate fire precautions, and other menaces to public safety, health, and welfare.

The pirate who sailed the Spanish Main several centuries ago flew openly the skull and cross-bones from his masthead, but the modern pirate walks disguised in polite society. Although wearing clean linen and possessing membership in exclusive clubs, he may be guilty of wrecking—financially, if not physically—individuals and large corporations for his own private gains.

The modern highwayman takes his toll not from the solitary pedestrian, but from the unknown consumer. The unsocial individual does his plundering invisibly and impersonally, but on a larger scale. For illustration, he adulterates foods, produces shoddy cloth, or sells questionable securities.<sup>1</sup>

This new and even more dangerous type of sinner may not commit crime, but his antisocial acts within the law are more dangerous than individual vices which injure only one's own self. However, the very interdependence of modern society makes many personal vices, such as drunkenness, a social crime because of their hazards to other people, as well as to the individual himself.

**17. Economic Ideals of a Progressive Society.**—The determination of progress implies the existence of certain goals of social welfare. Although there is no generally accepted definition of progress, and although there is no common agreement as to objective tests and measures of social welfare, it may be possible to suggest certain economic ideals of a progressive society. Among them are prosperity, conservation, efficiency,

<sup>1</sup> Professor E. A. Ross has stated this contrast very effectively in his book entitled "Sin and Society."

equality of opportunity, and cooperation. Each of these economic ideals has been discussed before in detail. They are marshalled together here for a final review.

Prosperity has been defined as an abundance of economic goods. The United States, as contrasted to China, is a prosperous nation, just as an individual with a large income is more prosperous than an individual with a small income. A poverty-stricken group of savages may be content in spite of their poverty, if they have known nothing better. Individuals also may be happy if their acquisitive desires have been subordinated to other motives. Saint Francis of Assisi, for illustration, represents the ascetic ideal, rather than the so-called "economic man." Happiness is a subjective rather than an objective term, and the economist relinquishes this problem to the philosopher and the psychologist. Ordinarily, however, a certain amount of material worldly wealth is necessary to individual and social well-being. Wealth and welfare are not identical, but there does seem to be some connection between them.

National prosperity, like individual prosperity, is not an end in itself, but merely a means to greater group welfare. The social surplus of modern civilizations, as compared with the dire poverty of primitive peoples, is some proof of economic progress. The difference between medieval and modern standards of living is another indication of material progress. Economic progress, however, does not automatically produce cultural and spiritual progress, any more than the growing prosperity of the *nouveau riche* implies an increased refinement. Nevertheless, civilization cannot bear its cultural fruits until a satisfactory adaptation has been made to the economic environment. A social surplus in excess of bare subsistence first must be achieved. Economic prosperity is at least conducive to, if not productive of, a higher civilization and an improved culture.

Although there may be great national prosperity, many individuals will not enjoy it if the wealth of the country is so distributed that glaring inequalities of income exist. Individual prosperity does not follow from national prosperity. Dire poverty existed among the wretched masses of wealthy Rome and still persists in prosperous America. Again, economic prosperity must be accompanied by industrial security. Not only increased production, but also stabilized production, is necessary for a wholesome, long-run prosperity.

Another ideal of economic progress is that of conservation. Just as prosperity means an abundance of economic goods, so conservation implies the wise use of our economic wealth. What thrift is to an individual, conservation is to a nation. The ideal of conservation implies a consideration not only for one's fellow citizens, but also for posterity. The ruthless individualism of one generation may impair the prosperity and welfare of the following generations. Although

we have made a fairly good adaptation to our physical environment, we have been very prodigal of the resources of nature. The rapid increase of population within the United States and the depletion of many of our natural resources have made conservation imperative.

Human conservation, however, is even more important than the conservation of our natural resources. Human conservation is best illustrated by a reduction of the death rate, a decrease in general sickness and occupational diseases, and a diminution of general and industrial accidents. One proof of progress is the conservation of human life and health, due to the advancement of medical science, the art of surgery, and the practices of public hygiene and sanitation. The average length of life in modern Europe and the United States is several times as great as that of medieval Europe and the backward countries of today. Indeed, mortality statistics show that the average life-expectancy rate has lengthened appreciably within the last few generations. Human conservation involves not only lower mortality and morbidity rates, but also higher eugenic ideals. Its economic aspects include higher standards of living, improved working conditions, and increased leisure time. Excessive hours of employment, dangerous working conditions, and unsanitary factories are present menaces to human conservation.

Another economic ideal is that of efficiency, which was defined as maximum production with minimum effort. It will be remembered that efficiency and conservation are supplementary, for the former means maximum output and the latter minimum waste. The present prosperity of the United States is due in no small measure to our industrial efficiency. Nevertheless, much more efficient production can still be achieved. The possibilities of the scientific management of industry are enormous. But in our great search for increased productivity and in our devoted worship of this new god of efficiency, it is important to remember that producers must not be sacrificed to product. It is essential that industrial efficiency be accompanied by human conservation rather than be advanced at its expense.

Equality of opportunity has been defined as the same chance for all individuals to become unequal, *i.e.*, to develop to the limits of their inherent abilities. A flat economic equality would represent neither social justice nor economic progress. On the other hand, the increase of prosperity which followed the industrial revolution has not been evenly distributed. The persistence of large fortunes and poverty make impossible the achievement of equality of opportunity. Hence progressive income and inheritance taxes have been imposed. Moreover, the development of public-school systems and the spread of democratic ideals in education indicate progress in the direction of equality of opportunity. Industry itself seems to be feeling the new impetus. It is not unthinkable that the present century may witness a development

of industrial democracy similar to the development of political democracy during the past few centuries.

Another ideal of industry is the substitution of cooperation for conflict. Conflict of interests can never be eliminated, but these conflicts can be settled through parliamentary and judicial channels, rather than by economic warfare. Industrial conflict involves great economic waste and high social costs. Economic progress does not involve the elimination of competition, but rather the regulation of competition. It merely seeks the termination of wasteful and predatory forms of competition. By the social control of competition, individual acquisition will be determined by individual productivity, rather than by inheritance, mere cleverness, or fortunate circumstances.

**18. From a Deficit Economy of Pain to a Surplus Economy of Pleasure.**—Although much remains to be done, society has already made many progressive changes or adjustments. Serfdom and slavery have been abolished, and no longer do men toil so arduously and incessantly to produce the bare necessities of life. Primitive peoples lived from hand to mouth in the absence of any large accumulation of a stock of goods. There was no social surplus in a deficit economy of pain and deprivation.

Since the industrial revolutions—new as well as old—production has so increased that goods formerly regarded as luxuries are now consumed by all. Ships from distant parts of the world bring to the poor man's table commodities which princes of old could not have purchased for a king's ransom. The dream of Roger Bacon has come true, for mechanical inventions are now performing tasks which would formerly have been thought impossible. The results of power machinery are increased leisure and wealth. Our potential resources are so abundant and our productivity is so high that exploitation and underconsumption are now unnecessary. Moreover, higher ideals prevail today, and public opinion will no longer sanction what was once regarded as necessary and even justifiable.

**19. Historical Perspective.**—If one thinks in terms of his own generation, the cynic can easily find sufficient grounds for pessimism and for despair about social progress. If he will avail himself of the telescope of history, however, and look backward across the centuries, his faith in economic progress will be restored. Moreover, recorded history is but a brief span in the long story of social development. The prehistoric ages were many times longer than the historic, *i.e.*, since the invention of writing.

James Harvey Robinson has given us a good historical perspective by using the hours of the clock to show the relative shortness of the historic period as contrasted with the prehistoric period and the brevity of modern history as compared with the length of ancient history. To

record man's prehistoric progress on this scale, we are forced to turn the hands of a clock past the first eleven hours and over halfway around the last hour. According to this scale, the dawn of history in the river valleys of the Nile and Euphrates took place at about twenty minutes to twelve. The Christian era began about eight minutes to twelve and the industrial revolutions have taken place within the last minute. This illustration shows not only the antiquity of man and the length of social evolution but also the accelerated rate of recent development.

Judged by such a scale of progress, Plato is a relatively recent reformer, and the abolition of slavery is almost a contemporary event. The industrial revolution is likewise a very new development, and society has not yet adjusted itself to these industrial changes. The perspective of time is essential to the student of the social problems of industry, if he is to maintain his idealism. Otherwise, labor problems represent a gloomy industrial pathology. The first steps in economic progress were inconceivably slow, but each new invention or superior adjustment has created increased possibilities for further discoveries and improvement.

This same thought has been expressed as follows by H. M. Tomlison.

Our men of business are unaware that all the complexity of the Europe we know has developed in fewer years than it took the prehistoric nomads of the steppes to learn that horses could be mounted. The civilization of industrial science, nevertheless, is so recent a curiosity that it has expanded over the earth in fewer years than it took Egypt to fill the tombs of a dynasty or two.

**20. Summary.**—Social unrest against existing economic injustices has often reflected itself in the creation of Utopias. They are interesting as idealistic descriptions of existing social conditions. But as society is dynamic, its standards are ever changing. Its ideals are constantly advancing as society progresses.

Progress is more than mere change, because it implies change in the direction of greater social welfare. Neither is progress mere evolution, for the former term implies a conscious and active process as compared with the natural selection of the latter. Among the ideals of economic progress are prosperity, conservation, efficiency, and equality of opportunity.

Although the existence of progress in general may be challenged, there has certainly been economic progress in the sense of a superior adaptation to the physical environment. By a consideration of the antiquity of human society and the comparative recency of certain great movements, such as the industrial revolution, one can obtain an intellectual perspective which makes for optimism. Although progress does not travel in a straight line, there is room for believing that economic progress is both cumulative and accelerated.

It would seem that man's social adjustment has not kept pace with his physical adaptation. Economic progress is impeded by the presence of traditional methods of thought, by the absence of a strong social conscience, and by imperfectly developed agencies of social control.

Maladjustments are those obstacles in the economic and social environment which hinder progress. They have been attacked by state legislation, by organized labor, and by socially minded employers. Progress may take the evolutionary method of attempting to eliminate certain economic maladjustments or the revolutionary method of seeking to remodel the entire industrial system.

Economic progress is conditioned also by the biological factor of heredity. The advancement of the group requires the progressive elimination from society of certain degenerate strains.

In addition to the improvement of the social and economic environment and the betterment of the physical heredity of the group, there still remains the factor of education in economic progress. It goes without saying that none of these methods of progress is mutually exclusive, but rather that they are all necessary and interdependent.

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### Questions for Discussion

1. Give the analogy of adjustment from nature.
2. Illustrate economic and social maladjustments.
3. Differentiate between passive and active adaptation.
4. Differentiate between evolution and progress.
5. Explain what you understand by man's mastery of nature.
6. Explain and illustrate the importance of the social environment.
7. Show to what extent your economic views are your own and to what extent they reflect those of your social group.
8. To what extent is social control an economic problem?
9. To what extent is the improvement of the biological stock of the group a problem of economic progress?
10. Show the implications of the educational method of economic progress.
11. Illustrate the ideal of progress as conceived by the authors of certain famous Utopias.
12. Name and explain certain ideals of a progressive economic society.
13. Can our economic competition be compared to the biological struggle for existence? If so, how? If not, why not?
14. Why is social justice a problem of adaptation?

### Topics for Investigation

1. Plato's "Republic."
2. More's "Utopia."
3. A comparison of the great-men theories of Emerson and Carlyle.
4. The economic interpretation of history.
5. Patten's economy of pain and pleasure.
6. Positive and negative eugenics.
7. The paradox of plenty.
8. Failure of social adjustment to keep pace with economic changes.



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